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SOCIAL ASPECTS OF INDUSTRY

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A Survey of Labor Problems

BY

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THIRD EDITION

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Gift.

SOCIAL ASPECTS OF INDUSTRY

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To

JAMES P. LICHTENBERGER

TEACHER, COLLEAGUE, AND

FRIEND

PREFACE TO THE THIRD EDITION

The ubiquitous trilogy of war, depression, and revolution have made recent economic change kaleidoscopic; social readjustment thereto has been continuous. The New Deal, for example, was an economic revolution in peaceful American fashion; it was preceded by a world depression and followed by another world war. The social and legal status of labor has been tremendously affected by all these momentous events. Hence, the necessity of renewed research and repeated revision. The availability of the 1940 Census figures also motivated the preparation of this third edition of "Social Aspects of Industry."

The purpose of the present volume continues to be that of a general survey of social problems of industry. Although many excellent texts on labor problems have appeared since the publication of the first edition, some of them are encyclopaedic in character; others present labor problems from the legal aspect or from the viewpoint of industrial management.

This third edition follows the plan of its two predecessors. Part One sketches the general background in social forces, economic techniques, legal institutions, and labor supply. Part Two analyzes the fundamental labor problem of income, studying the production and distribution of the national income, contrasting prosperity with poverty, and attempting to test theories of wages by the actual facts. Part Three takes the approach of the state through legislation toward the amelioration of such causes of social unrest as industrial exploitation and economic insecurity. Part Four traces the organized labor movement through various devices of collective bargaining; it moves from problems of industrial conflict to programs of industrial peace. Part Five follows the approach of the employer through individual initiative in promoting programs of industrial paternalism or industrial democracy. Finally, Part Six reaches from conservative projects of economic reform to comprehensive programs of economic reconstruction.

Social problems of industry lie within overlapping zones amid the contiguous fields of sociology, economics, and political science. Industrial problems have social consequences; they involve governmental action for their solution. Their very nature defies rigid compartmentalization. Realizing the composite character of labor problems, the author has attempted to weave them into a unified pattern of social economics. Many phases of industrial management, of governmental administration, and of labor law have been discussed briefly or omitted entirely. It is

obvious that technical points cannot be developed meticulously or specialized fields covered fully in such a broad study as that of social economics.

This text is intended merely to carry the general thread of the story. It is hoped that time will permit the teacher or discussion leader to supplement this work by articles of current interest or special significance. There are numerous good books covering particular topics; there are many interesting and informative periodicals keeping their alert readers abreast of recent developments. At the end of each chapter is a list of Selected References on the subject matter treated therein. At the end of each chapter are also a list of Questions for Discussion, based on the textual material, and a list of Topics for Investigation, inviting original work and independent thought.

Conflicting points of view have been presented, from which the student can make his own selection or modification. The attempt has been made to preserve a fair and objective attitude, to present constructive criticism, and to give the best viewpoints of both sides.

The findings of numerous research students have been freely used; due acknowledgment has been made in the footnotes. The author makes no claim for originality. He takes this opportunity to express his indebtedness also to various teachers of economics and sociology whose kind criticisms have stimulated this revision and improved this edition. Finally, he wishes to thank Miss Winifred G. Thomas for the preparation of the index to the book.

S. Howard Patterson.

Philadelphia,
January, 1943.

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PART ONE

THE BACKGROUND OF LABOR PROBLEMS

Chapter I. The Background in Social Forces, *Fundamental Concepts.*
Chapter II. The Background in Economic Techniques, *This Machine Age.*
Chapter III. The Background in Political Institutions, *Our Legal Rights.*
Chapter IV. The Background in Population, *Immigration and Labor Supply.*

CHAPTER I

THE BACKGROUND IN SOCIAL FORCES

FUNDAMENTAL CONCEPTS

1. Characteristics of Civilization.—Civilization may be viewed as the social life and legacy of a group. To understand it requires considerable knowledge of present social organization and of past social evolution. Civilization expresses itself not only in material forms, such as churches and factories, but also in nonmaterial forms, such as group attitudes and public opinion. Social life carries on both in economic techniques, or ways of getting a living, and in social institutions, or ways of living.

Our culture is continuous, changing, cumulative, and complex. These four *C*'s describe the rectangle of civilization. Within it lie both the problems and the potentialities of modern social life.

2. Social Change.—Civilization then is the hardy perennial of society, which has survived pillage and pestilence, war and waste. Nevertheless, it presents a constantly changing cluster of economic techniques and social institutions. Civilization has emerged from cycles of war and peace, depression and prosperity, decadence and renaissance, but always in an altered form. The only unchanging characteristic of civilization is the persistence of change itself.

There are periods of slow change, followed perhaps by periods of rapid change, followed, in turn, probably by periods of slow assimilation or readjustment. Some cultures are so static or so isolated that the stream of civilization seems to have stopped its flow or to have drained into stagnant pools. On the other hand, different periods or peoples are characterized by such numerous, sudden, and sweeping changes that general trends or definite currents are difficult to discover.

Social change, in other words, may be *evolutionary* or *revolutionary*. Evolution implies slow piecemeal changes. A revolution, on the contrary, is a relatively sudden and fundamental change or series of changes.

Finally, social change may be *institutional* or *technological* in character. The former affects ways of living; the latter, ways of getting a living. Institutional changes are social readjustments in the human relationships of men. Technological changes are economic adaptations of man to nature, representing an increased control over the physical environment.

Institutional changes can be illustrated by modifications in political forms and social customs, such as those of the American and French

Revolutions. Technological changes, on the other hand, are embodied in improvements in methods of manufacture, transportation, communication, and illumination, brought about by various economic revolutions. Of course, institutional and technological changes are interrelated and simultaneous; one type of social change influences and induces another. Good government, for example, makes for invention and discovery; conversely, mechanical inventions produce social innovations, which in turn modify social institutions.

3. Culture Lag.—Changes in economic techniques are apt to be more numerous and more rapid than changes in social institutions. Improvements in economic techniques are quickly adopted; modifications in social institutions are stoutly resisted. In general, economic change is too great and too rapid for prompt and smooth social readjustment. This creates what is known as culture lag.

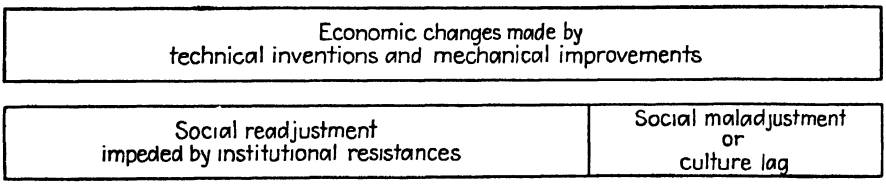


CHART 1.—Culture lag.

Culture lag can be illustrated by the persistent failure to remedy existing abuses in France and Russia, which situations finally culminated in the French and Russian Revolutions. Flagrant culture lag was succeeded by violent social readjustment.

In our own country, culture lag can be seen in the tardiness of humanitarian legislation to cope with the social problems of economic insecurity and technological unemployment, growing out of the invention and increased use of machinery. Culture lag has been caricatured as a horse-and-buggy jurisprudence in a streamlined age of mechanical power.

The progress of science has made modern warfare more destructive than medieval combat; it has also made present machine manufacture more productive than primitive handicrafts. But social control has not succeeded in curbing the fiery spirit of war; nor has social adjustment been able to check its human and economic losses. Technology, or applied science, has merely increased the ravages of war and intensified this menace to civilization. Likewise, despite all our progress in the arts of peace, we have not learned how to narrow the banes and to widen the blessings of power machinery. Mechanical invention and scientific discovery have let loose another giant, which civilization has not yet effectively harnessed. Modern warfare expresses the hates of primitive man more effectively through the improved techniques of contemporary

culture. Similarly, modern industry has increased powers of destruction, as well as improved potentialities of production.

4. Social Adjustment.—Adjustment is the increase of internal harmony or the decrease of external friction. It means that individual members of, or component groups within, society are cooperating instead of clashing, or that society as a whole has made a better adaptation to its physical environment. Man's relationships to his fellows are improved, or man's control over nature is increased.

The processes of invention and discovery permit constantly improved adjustment. On the other hand, as we have just seen, they necessitate continuous readjustment. Otherwise, culture lag creates social maladjustments of far larger proportions and with more serious implications than would exist in a static or unprogressive society characterized by few and minor changes.

5. Illustration of Social Adjustment and Maladjustment.—The force of social adjustment can be compared to a river cutting a deeper stream bed or a new channel to the sea in response to geological changes in the earth's crust. Social maladjustments can be likened to the rocks in the valley against which and through which the stream of social adjustment slowly but surely pushes its way. These social resistances must be overcome, for they dam the stream of social progress; these social abuses mar the otherwise harmonious landscape.

Social maladjustments can be illustrated by the persistence of war despite the spread of humanitarianism, by dire poverty amid plenteous prosperity, and by distressingly high disease and death rates in the face of increased knowledge and improved techniques.

6. Social Unrest.—Social unrest arises from the failure of our economic organization to adjust itself swiftly and smoothly to technological changes. It is intensified by the rigidity of social institutions, which resist modifications necessitated by economic changes.

Social unrest is characteristic of a dynamic society. A relatively static society, like that of medieval Europe or China a century ago, suffered from maladjustments of which it was not conscious or which it was willing to endure. A progressive society suffers from "sublime discontent." The diffusion of acquired knowledge and the acquisition of higher ideals make for dissatisfaction with existing conditions. The spread of public education and the development of a higher social morality make for a greater sensitivity to industrial maladjustments than ever before. Hence, social unrest exists today in an unprecedented manner. It is to be feared only if it remains inarticulate and finally explodes in some sudden and violent attempt at adjustment. The French and Russian Revolutions illustrate the dangers of long suppression followed by sudden expression.

7. Social Progress.—Social unrest may cause progress and may result from progress, but social unrest is not to be confused with the social progress which it accompanies. Again, social change is necessary to progress, but it is not identical with progress. Social change may be in the direction of decadence or in the nature of dissolution. Progress implies conscious and purposive change in the direction of generally accepted goals of social well-being. The nature of social ideals and the criteria of industrial progress will be discussed in the concluding chapter.

8. Social Control.—Whereas social progress is a dynamic force, social control is a static influence. The former is associated with social change, the latter with social stability. Like an automobile in which the driver uses alternately accelerator and brake, the progress of society is speeded up by inventions and discoveries and slowed down by institutions of social control.

a. Nature.—Social control refers to the influence of the group over the attitudes and actions of individuals composing it. By the conscious exercise or subconscious influence of social control, the thoughts and deeds of members of a particular society or class are brought toward uniformity one with another and into conformity with the social traditions of the group as a whole.

Just as invention and innovation make for social change and social progress, so imitation and convention make for social control. Individuals are molded by the ancient customs and moved by the current opinions of the particular group to which they belong. An individual is restrained from actions and attitudes which are regarded as unsocial and impelled toward those which are sanctioned by social tradition.

An unsocial act is one which is regarded as inimical to group interests or which menaces the unity and longevity of the group. A social act, on the contrary, is one in which individual interests are sacrificed to the common good or social welfare.

b. Necessity and Variety.—Social morality is essentially a problem of the social control of individuals. How much social control is necessary? What type of social control is best? In answer to the first question, it may be stated that, as density of population increases and as the number of human relationships multiply, the necessity of social control is intensified. Industrialization and urbanization have ended the individualism of the frontier. In answer to the second question, it may be observed that each society stigmatizes as criminal and punishes most severely those acts which threaten its particular type of culture. Blasphemy in a theocracy and treason in a despotism have been heinous crimes. A modern commercial and industrial society hounds embezzlers and hunts sabotage.

c. Stages and Forms.—There are three general stages in the evolution of social control, *viz.*, custom, public opinion, and law. The folkways

develop into mores as a particular custom, rite, or traditional routine becomes associated with group welfare. As history progresses, the unwritten rule of custom is succeeded by the written law of the statute book.

Public opinion must first formulate itself before it finally crystallizes into law. Illustrations can be found in the development of shorter working days, minimum-wage laws, and child-labor acts. It must not be thought, however, that law ever entirely supplants custom and public opinion as the sole agency of social control. The activities of individuals are as much influenced by the customs of their age and the public opinion of their group as by the laws of their land.

Each of the many social groups to which an individual belongs has its own standards and agencies of social control. Thus, the professional ethics of physicians or lawyers differ from the ordinary standards of the business world. Even among the laboring classes themselves, sabotage has been condemned by one group and condoned by another; sit-down strikes have been avoided by some unions and practiced by others. Moreover, the strength of social control, as well as its forms, differs greatly among various economic groups.

9. Social Institutions.—An institution has been defined as a social habit of thought. Social institutions grow from the folkways and mores of the group; they are embodied in unwritten tradition and written law; they are expressed in public opinion and social attitudes. Institutions generally have a central social purpose and give a definite social organization to the group. They are frequently associated with special ceremonies or rituals and with a specialized class of dignitaries who perform appropriate functions.

All social institutions are agencies of social control; each influences our industrial life and is influenced by it in turn. Among the most prominent social institutions are the state, the church, the family, the school, and such economic institutions as those of modern capitalism.

The political institution of the state and the economic institutions of capitalism are of vital importance. Each has supported the other, and each has adapted itself to the other. Recent revolutions have brought about changes, not changes in either political or economic institutions only, but rather interrelated and simultaneous changes in both political and economic institutions. The next two chapters, therefore, will discuss, in turn, those economic and political institutions which are fundamental to an understanding of modern industrialism.

The family was an important institution of social control in the past; but modern city life and the factory system have weakened the economic importance that the family formerly possessed under the domestic system of production. On the other hand, the school has increased in importance as an institution of social control and as a factor in social progress.

During the medieval period, the church, rather than the state, was the dominant institution of social control. Toward the close of this period, however, kings achieved their independence from the papacy and their supremacy over the feudal barons. Constitutional democracies gradually achieved the separation of church and state. The church now functions as an institution of social control chiefly by its spiritual authority. Modern churchmen, however, like the prophets of ancient Israel, occasionally concern themselves with broad questions of civic righteousness, economic welfare, and social justice.

Other agencies of social control, which might have even more beneficial influence than at present, are the newspaper, the theater, and the motion

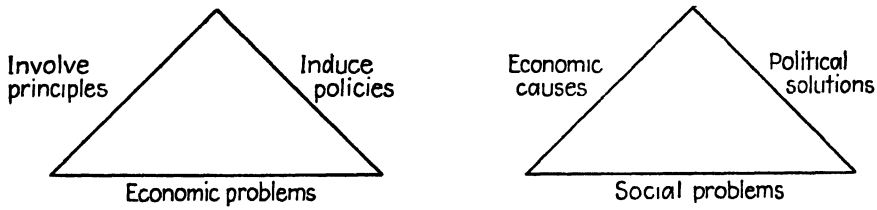


CHART 2.—Industrial triangles.

picture. Too often, however, they cater to existing social attitudes and prejudices; rarely do they uphold the highest and best social ideals before their millions of patrons. For illustration, motion pictures often feature the achievement of great wealth without commensurate production, individual acquisition instead of social service, the lure of leisure rather than the dignity of labor, and conspicuous consumption in lieu of thrift and industry.

10. Nature of Social Problems.—Our previous discussion has revealed that a social problem is a maladjustment or a disequilibrium. There is friction between classes or a lack of harmony within society as a whole. We have seen how social problems arise from culture lag and how they express themselves in social unrest. They characterize a changing or dynamic society, for a group which has no social problems is a dead and not a living organism. Social problems, then, are the growing pains of the body politic.

Again, social problems exist because of a gap between social actualities and social potentialities and because of the contrast between group deeds and group needs. Society is not living up to its greatest possibilities; it is not making the best use of its natural resources or its acquired knowledge. To repeat, the existence of poverty amid plenty, the persistence of war despite humanitarianism, the prevalence of preventable disease in the face of present knowledge, illustrate social problems so chronic and so common that they are taken for granted.

Social, economic, and political problems are interrelated, not isolated. The development of a social security program, for example, may result in an unbalanced budget and thus create or aggravate economic and political problems for the student of public finance. The subjects of economics, sociology, and political science can be departmentalized only arbitrarily for purposes of specialized study. Most social problems have economic causes and involve for their solution or amelioration the intervention of government as the political institution of social control.

11. Labor Triangles.—Economics has been defined as the social study of man in the business of getting a living. Using this definition in a restricted sense, it becomes a statement of the scope of labor problems. However, man works to live; he does not live merely to work. Hence, the student of labor problems is interested in living standards as well as in working standards. He is concerned not only with production but also with consumption and distribution of income.

The study of labor problems, then, extends over the entire field of economics; it also crosses the borderlands of sociology and political science. Indeed, the location of this subject in any one of these three fields is merely a matter of convenience and emphasis.

It is as difficult to define the labor problem as it is to determine its field. Our story is one of the evolution and organization of the workers and of efforts to improve their living and working conditions through legislation by the state, through collective bargaining by their own organizations, and through the paternalism of benevolent employers.

In a subsistence economy where man worked for himself and consumed his own products, no labor problem existed; each individual worked when, where, and how he pleased. In an exchange economy, however, the laborer sells his services and works for an employer under mutually acceptable terms. There is a contractual relationship and an evaluation of services in wage payment. Out of such a situation, labor problems emerge.

History may be called to witness that the real wages of workers have increased, while their hours of labor have decreased, especially within modern times. On the other hand, it seems equally apparent that the hazards of modern industry have multiplied. The new specters of economic insecurity and economic instability terrify those who toil today as much as, or more than, the old ghosts of low wages and long hours threatened the workers of an earlier period. Moreover, it cannot be assumed rashly that low wages and long hours have been abolished. Since many groups of workers have yet to feel the emancipating influence of minimum wage standards, some types of labor, either through inadequate wages or irregular employment, are not receiving sufficient income to maintain a minimum standard of living or to achieve the "good life" of

which much is now said and written. Not all workers have shared properly or proportionally in the increased productivity of the machine. The age-old problems of economic inequality and man's inhumanity to man still throw their shadows over our modern era of enlightenment.

Although labor problems are numerous, three basic maladjustments have been pictured as the industrial triangle—the three *I*'s of economic inequality, economic instability, and economic insecurity. Recent attempts at readjustment have been summarized similarly as the new three *R*'s of relief, recovery, and reform.

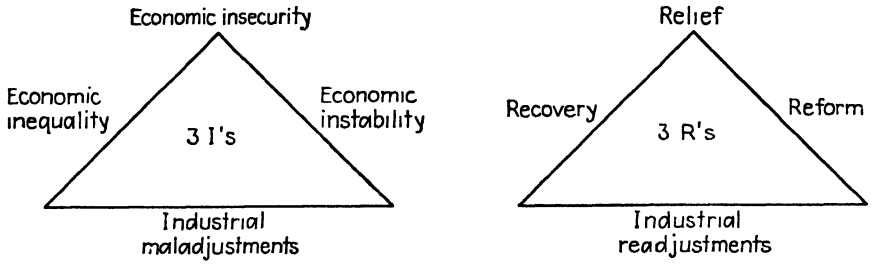


CHART 3 - Industrial maladjustments and readjustments.

These are some of the labor problems posed for our consideration. These are some of the social maladjustments around which the currents of social unrest have recently raged. These are some of the socioeconomic problems of our day on which the guns of the New Deal of Franklin D. Roosevelt have been trained; their political roar has drowned the echoes of the Square Deal of Theodore Roosevelt and the New Freedom of Woodrow Wilson.

12. Different Methods of Approach.—The process of social adjustment may be evolutionary or revolutionary, according to whether it is slow or rapid, peaceful or violent, superficial or fundamental. The forces of social unrest may express themselves in an intelligent, constructive fashion or in an unreasoning, destructive fashion. Progress represents conscious evolution and orderly adjustment, rather than the blind attempts or selfish efforts of mob leaders to remove economic maladjustments from the backs of the masses.

The process of adjustment may take the form of minor improvements or it may be radical in the etymological sense of that term; *i.e.*, it may seek to go to the root of things. Liberals would repair by continuous, petty reforms the broken machinery of capitalism, but radicals would scrap it completely and substitute some other scheme, no matter how violently they might disagree among themselves concerning the nature of the new order after the revolution had been achieved. Ultraconservatives, on the contrary, would defend the existing economic system and the present social order against almost any changes whatever therein.

The elimination of industrial maladjustments by evolutionary processes has been accomplished by the state through labor legislation, by organized labor through collective bargaining, and by benevolent employers through various paternalistic schemes. Revolutionary adjustment has been proposed by radical socialists, by syndicalists, and by anarchists. Such changes are those of economic reconstruction rather than economic reform. Chart 4 expresses graphically those divergent approaches to the solution of labor problems.

13. Plan of Text.—The previous discussion gives us the plan of this text.

Part One introduces the student to the study of labor problems; this chapter explains fundamental social concepts and states the basic issues. The following three chapters furnish additional general background for a study of labor problems. The second chapter deals with industrial techniques and economic institutions; it sketches the historical background of the present machine age in the industrial revolution. Chapter III is devoted primarily to political institutions and to government as the chief agency of social control; it lays the legal basis for a study of labor problems. Chapter IV discusses problems of population and immigration; it is concerned with the potential labor supply of the United States.

Part Two is devoted to problems of income, which are regarded as fundamental in a study of labor problems. An analysis of production is followed by one of distribution, to discover, if possible, wherein the maladjustment lies. The opposite poles of prosperity and poverty are located; the ideals of standards of living are contrasted with the realities of planes of living; and theories of wages are set off against the actual facts of wage trends in the United States.

Part Three is devoted to such maladjustments as industrial insecurity and exploitation. Here the role of the state is stressed and important labor legislation is explained. Society's efforts to provide social security and to improve working conditions, as well as attempts to reduce child labor and excessive hours of work, are traced.

Part Four supplements Part Three. It stresses the role played by organized labor and the gains made through collective bargaining. The development of labor organizations is traced; their aims and policies are outlined. Weapons of industrial conflict and programs of industrial peace are contrasted.

Part Five likewise supplements Parts Three and Four. It appraises the employer's contribution in such activities as scientific management, personnel administration, welfare work, employee representation, and profit sharing. Industrial democracy and industrial paternalism are compared.

Part Six passes from industrial reform to industrial reconstruction, from conservative to radical programs, and from evolutionary to revolutionary changes. Such comprehensive movements as cooperation and socialism are discussed; communism, syndicalism, and anarchism are mentioned.

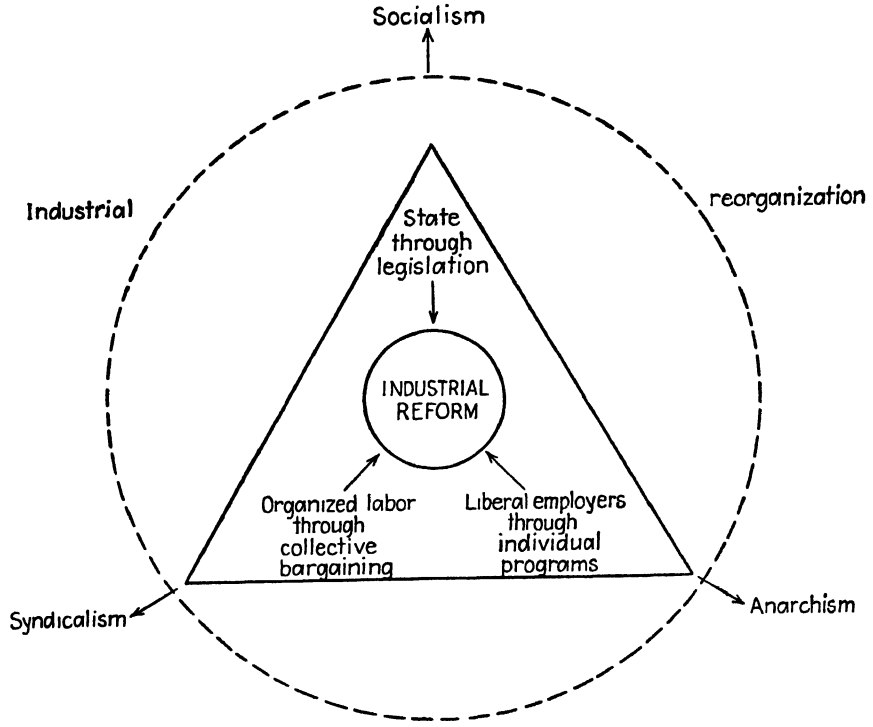


CHART 4.—Industrial reform and reorganization.

There is a concluding chapter on economic utopias and social progress, which attempts also to summarize the social ideals of industry developed throughout the text.

Summary.—Civilization is the social life and legacy of a group. Its characteristics have been epitomized as the four *C*'s, for civilization is continuous, changing, complex, and cumulative. It includes both economic techniques and social institutions. An institution has been termed a social habit of thought.

Social adjustment is better adaptation or adaptation to new conditions. Maladjustments are poor adaptations or failures to meet new situations promptly and properly. Culture lag arises from the failure of society to keep pace with economic progress. Technical inventions

and scientific discoveries make for change; social institutions resist change.

Social unrest arises from the existence of maladjustments; it requires realization of these maladjustments and implies hope of improvement. The forces of social unrest have recently concentrated on the three economic *I*'s of inequality, instability, and insecurity. The process of adjustment has recently expressed itself in the new three *R*'s of relief, recovery, and reform.

Social change may take the form of progress or of retrogression. Progress implies purposive change for the better. Social change may be expressed in evolution or in revolution. Changes may take place in economic techniques, or ways of getting a living, and in social institutions, or ways of living.

Whereas social change is dynamic, social control is static. Social control is the influence of the group on the individual. Social change takes place through innovation; social control through imitation. All social institutions are agencies of social control, although it is achieved mainly through custom, public opinion, and law.

Social problems are maladjustments. Labor problems arise when one individual employs another or others to work for him, for such a situation introduces contractual relationships and involves wage considerations. Labor problems have been approached by the state through legislation, by organized labor through collective bargaining, and by individual employers through enlightened policies and experimental programs.

Questions for Discussion

1. Distinguish between the material and the nonmaterial aspects of civilization. Evaluate and illustrate.
2. Define a social institution. Give its essentials. Illustrate.
3. Describe adjustment and maladjustment. Illustrate each.
4. Explain the nature and origin of culture lag. Illustrate.
5. When and why is social unrest serious? Illustrate.
6. *a*. Define social progress and social control.
   b. Show how they supplement each other.
7. Show the necessity of increased social control and the possibility of improved social control.
8. Define each and distinguish between evolution and revolution. Illustrate.
9. *a*. How would you define a social problem?
   b. Give the origin of labor problems.
10. Outline the parties to labor relations and the various approaches to labor problems.

Topics for Investigation

1. Definitions of civilization or culture.
2. How folkways become mores.
3. Methods of social control.
4. Science, technology, and culture lag.

5. Social morality and individual liberty.
6. Nature of social problems and essence of the labor problem.

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CHAPTER II

THE BACKGROUND IN ECONOMIC TECHNIQUES

THIS MACHINE AGE

1. Need of Definition.—Complacent defenders of capitalism and violent critics thereof are numerous. They can be heard in drawing room and on street corner, in pulpit and on platform. The daily press carries argument and counterargument, apologetics and tirades. It is only the academic student, "sicklied o'er with the pale cast of thought," cloistered far from the noise of battle, who ventures to raise the fundamental question of just what is meant by the term "capitalism." The great doers of the world are so busy saving, reforming, or attacking capitalism that they cannot lay down the sword for the pen in a pedantic attempt to define that for whose defense, regeneration, or overthrow they might give their very lives.

Definitions constitute an indispensable framework of any logical study, such as sociology or economics. Although they are tiresome and uninspiring, their construction affords both discipline and information. On the other hand, definitions, like classifications, are apt to be arbitrary and sterile. There can be no final or exclusive definition of such complex and changing concepts as capitalism and industrialism. Consequently, the following attempt at definition should be regarded merely as a starting point for the student's own thinking and as a device to avoid confusion in subsequent discussion.

2. Nature of Capitalism.—Capitalism may be regarded as an economic order or social system characterized by a relative abundance of capital goods and by such institutions as individual enterprise, economic competition, freedom of contract, private property, the price system, and the profits motive. The existence of money and credit, of merchants and markets, is implied, for capitalism is essentially a pecuniary and commercial system, just as feudalism was inherently a military and landlording system.

The distinction between capitalism and capital is obvious. Capital refers to a type of economic wealth, *viz.*, products of past labor used for further production. Capital goods are material commodities, but capitalism is a framework of economic institutions. Nevertheless, capitalism requires the relative abundance of capital, *i.e.*, plenty of transformable and exchangeable commodities. A nomadic tribe of shepherds, a

medieval manor, a pioneer community, or a plantation is too primitive, too poor, too self-sufficient, or too agrarian to be regarded as such. A capitalistic economy is far different from a local subsistence economy. It practices specialization and produces for a distant and impersonal market; merchants are important; and money is in common use.

Again, certain types of economic institutions, as well as capital goods and pecuniary values, are regarded as essential to the existence of capitalism. Of paramount importance is freedom of contract, which stands out in strong contrast to status, a condition fixed by birth, and illustrated by slavery, serfdom, and a caste system. Critics of modern capitalism claim that freedom of contract should be curbed in the interests of social welfare; that individual enterprise should be replaced, in whole or in part, by public ownership and operation of essential industries; that private-property rights should yield before a partial or complete communism; that the sordid profits motive, as the driving force of production, should be supplanted by the ideal of social service; and that the price system, as the imperfect regulator of production and consumption, should be replaced by a consciously planned and deliberately rationed economy. It is not our purpose now to evaluate the merits or demerits of capitalism, in contrast to those of socialism, communism, fascism, or some other social order, but merely to observe that capitalism is essentially a system of economic freedom and "rugged individualism," be these desirable or undesirable qualities.

3. Nature of Industrialism.—Industrialism may be defined as production under conditions of machine technique in the factory system, rather than by the hand tool of the craftsman under the domestic system. Some thinkers regard industrialism as the latest phase of capitalism, *i.e.*, as including all the essential elements and institutions of capitalism plus machine technique and large-scale production. Other students regard industrialism not as an economic order, but as a technological system. Hence industrialism is not viewed as inseparable from capitalism but as a mechanized type of production which could exist under socialism, communism, fascism, or any other social order.

4. Historical Setting of Capitalism and Industrialism.—From a historical viewpoint capitalism is older than industrialism. Antecedents of modern capitalism can be found in the ancient commercial civilizations of the Mediterranean Sea, including those of Rome, Greece, and Phoenicia. However, the appearance or reappearance of capitalism, as just defined, is generally placed in the Renaissance cities of northern Italy, such as Venice, Genoa, and Florence. The Lombard merchants and bankers were the first modern capitalists.

The coming in of capitalism may be viewed as contempory with the rise of commerce, or the commercial revolution, which can be traced as

far back as the Crusades. This transition from medieval to modern economy involved the breakup of the manor as a self-sufficient economic unit; the replacement of serfdom by freedom of contract; the development of an independent peasantry in the country and of a middle class of burghers in the towns; production for market demand, rather than for local consumption; the use of money and the payment of rents and wages in money instead of in services and commodities.

Modern industrialism is generally dated from the industrial revolution, which appeared first in England in the textile manufactures in the latter half of the eighteenth century. It involved the substitution of power machinery for human strength and skill and the factory for the domestic system.

5. Modern Economic Revolutions.—The coming in of capitalism and the advent of industrialism were not the only economic revolutions of modern times. In addition to these commercial and industrial revolutions, important changes occurred in agriculture, transportation, communication, and illumination. An agricultural revolution in the form of increased, improved, and varied farm production had taken place in seventeenth-century Europe, even before the industrial revolution. The industrial revolution was followed, in turn, by revolutions in transportation, communication, and illumination.

Economic revolutions have been frequent, as well as continuous; *i.e.*, there were not merely one agricultural revolution and one industrial revolution, but there have been several of each type. Within the United States in the last decade or two, new agricultural and industrial revolutions have taken place.

Again, these economic revolutions have been as interrelated as they have been continuous. The recent revolution in American agriculture was a result of the same process of mechanization as that which brought about the industrial revolution. Similarly, improvements in modern farm life have been intimately related to revolutionary changes in methods of transportation, communication, and illumination.

6. Nature of Industrial Revolution.—The industrial revolution may be defined as changes in methods of production brought about by the invention of power machinery and the consequent development of the factory system. The term "revolution" denotes a "turning away from" movement, or any sweeping and sudden changes.

As a result of the industrial revolution, manufacturing lost its etymological meaning of "making by hand." The substitution of expensive power machinery for the simple hand tool necessarily involved the replacement by the factory system of the domestic system. Power machinery was too large for the home and too expensive for anything except large-scale production.

The careful student of history discerns not one industrial revolution, but several industrial revolutions—perhaps a whole series of them. The so-called "industrial revolution" has been, in truth, a gradual evolution, the suddenness and rapidity of which are only relative. Hence it is difficult to give exact dates to this momentous movement. It is impossible to say just when the industrial revolution began or just when it ended. Perhaps it is still in progress, for the series of mechanical inventions has been continuous. Indeed, its climax was not reached until the new industrial revolution in the United States during the past two decades.

7. Advent of Industrial Revolution.—The industrial revolution, in the narrow sense of that term, refers to the changes which took place in the latter half of the eighteenth century in the English textile industries, owing to the invention of power machinery and the consequent introduction of the factory system. The great inventions began in 1733 with Kay's flying shuttle. The spinning jenny, invented in 1767 by Hargreaves, is another convenient device or date to mark this new movement. It was followed by the water frame of Arkwright. The spinning mule of Crompton, so-called because of its hybrid origin, subsequently combined the best features of these two machines. Weaving, as well as spinning, was revolutionized by the development in 1785 of the power loom of Cartwright. These important mechanical inventions made for the decline of craftsmanship and the domestic system; they "revolutionized" the textile industry by the introduction of the factory system.

Water power was used originally to run the crude machinery in the small factories, but James Watt's invention of the steam engine, the first patent for which was granted in 1769, furnished a new motive power for manufactures. Small water-power mills gradually gave way to large steam-driven factories.

The industrial revolution expanded from the manufacture of textiles to other industries. The fabrication of iron and steel was facilitated by the use of coal and coke as fuels and by the invention of the blast furnace. The development of these heavy industries accelerated the general tendency from small to large-scale production. Older methods of production were replaced by newer and more effective processes.

8. Spread of Industrial Revolution.—The industrial revolution, in the broad sense of the word, affected methods of transportation, communication, and illumination, as well as methods of manufacture. As a continuation of the same general movement must be noted Fitch's invention of the steamboat and Stephenson's invention of the locomotive in the opening decades of the nineteenth century. Improved methods of communication followed improved methods of transportation. The telegraph, the telephone, and the radio put in their appearance in the order named about a generation apart. Improvements in methods of illumina-

tion were equally revolutionary. The primitive candle and the ancient lamp gave way before the marvels of illuminating gas, which, in turn, was outmoded by the magic of electricity.

As time went on, the industrial revolution broadened geographically as it expanded industrially. It spread from England to the continent of Europe and later to America. At the present time, Eastern Europe, South America, and the Orient are feeling the quickening pulse of the industrial revolution. Factories have been started and machinery is being imported into India, in spite of Gandhi's adherence to the spinning wheel. Cotton mills are springing up within sight of the Egyptian pyramids. Silk mills have been built in Japan and railroads in China. Oriental peoples numbering hundreds of millions are now experiencing the throes of the industrial revolution. In spite of the so-called "progress" of the past hundred years, many of the same economic maladjustments which appeared in England during the first phase of the industrial revolution are again displaying themselves on an even greater scale in some of the more newly industrialized sections of the world.

9. Industrialization of the United States.—The industrialization of the United States came much later than that of England. The table on page 58 will show that at the opening of the nineteenth century, over nine-tenths of our population were rural; at the middle of the nineteenth century, eight-tenths were rural; and even at the opening of the twentieth century, six-tenths of our population were still rural. Except for a few manufacturing and commercial centers in New England and the Middle Atlantic states, the typical American family of a century ago lived on a farm, which was almost self-sufficient. In the South, slavery and the plantation system flourished; large planters lived like medieval lords on their huge and isolated estates. To the West lay an unconquered continent with fertile farms for the asking; the philosophy of individualism was part of the democracy of the frontier which helped to keep alive the economic policy of *laissez faire*. Labor problems, in the modern sense of the term, did not then exist, because relatively few workers were employed for wages; large manufactures and congested industrial centers did not exist.

Although some mills had existed in colonial America, it was not until a generation after the achievement of political independence that important manufactures developed in the United States. During the War of 1812 and the preceding period of the Embargo and Nonintercourse Acts, the New England states began manufacturing cotton cloth instead of importing it from England. The War between the States further stimulated the industrialization of the United States. Impelled by the necessities of this great conflict and encouraged by a high protective tariff, which continued long after the war was over, many of the basic industries of this country took a firm hold. The manufacture of iron and steel products,

the boot and shoe industry, and many other new manufactures were added to the already established textile industries.

10. New Industrial Revolution.—Although the industrialization of the United States had been taking place at an accelerated rate during the generation before the First World War, the demands on American manufactures during that great conflict and in the years which immediately followed it were so enormous that the expression "new industrial revolution" has been used to describe these momentous changes. There was an increase in the variety of industrial enterprises and an expansion in plant capacity. Industrial productivity rose rapidly, owing to increased mechanization, improved processes, and the introduction of scientific management and mass production.

Electricity and superpower played as conspicuous a part in this new industrial revolution as had the steam engine in the first industrial revolution a century and a half before it. Of equal importance has been modern technology, as illustrated by the achievements of industrial chemistry.

The new industrial revolution in the United States, like the old industrial revolution in England, resulted in considerable relocation of industry and some migration of population. Factories were started in the Piedmont section of the new industrial South, where basic raw materials, cheap labor, and abundant power resources were available.

11. Importance of the Industrial Revolution.—Just as the Renaissance separates medieval from modern history, and the French Revolution the ancient regime from the modern era, so the industrial revolution separates the old economic order from present industrial society. Many of the leading economic problems of today can be traced back to the industrial revolution, which has colored the entire pattern of modern civilization.

The French Revolution, which took place at about the same time as the early industrial revolution in England, attracted wider attention. But, although the French Revolution produced profound social and political changes throughout the entire world, it is doubtful if it revolutionized the lives of succeeding generations as much as did the less spectacular economic changes taking place across the English channel.

Judged by a purely materialistic standard, the world of Napoleon and Washington had much more in common with the ancient civilizations of Alexander the Great and Julius Caesar than it had with the modern world of Hitler and Churchill. During the two thousand years preceding the industrial revolution, tremendous cultural, religious, and political changes had taken place, but progress in the arts of manufacture, transportation, communication, and illumination had lagged. To be sure, there had been some improvements in methods of farming, but the invention of agricultural machinery was a triumph of the nineteenth century.

Homespun cloth was worn by the patriots who suffered at Valley Forge, and the cumbersome hand loom was still in use. Methods of illumination had improved no more than methods of manufacture. Oil-burning lamps, similar in principle to those of ancient Rome, afforded the best method of illumination. Tallow candles, such as those made by young Franklin, were in common use.

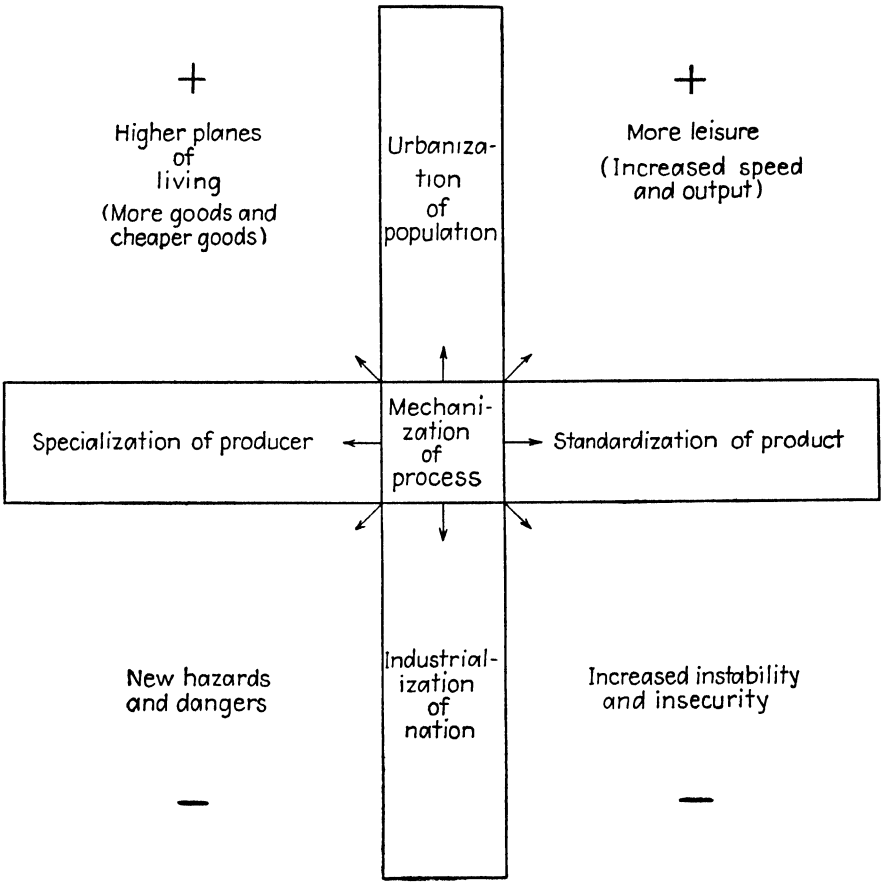


CHART 5.—Effects of industrial revolution.

Modern means of communication, such as the telegraph, the telephone, and the radio, were undreamed of. Methods of travel used by the troops of Napoleon were hardly superior to those employed by the legions of Julius Caesar. Indeed, many of the old Roman roads were still in use, and some of them were sadly in need of repair. Men journeyed on land afoot or by horse. The small sailing vessel made water transportation slow and uncertain.

12. Effects of the Industrial Revolution.—The importance of the industrial revolution in the history of the world can be visualized by these comparisons. Whereas in the previous centuries social adjustments to economic changes could be made with relative ease and promptness, in the years following the industrial revolution adaptation of social institutions fell far behind the rapid march of technological inventions and mechanical improvements in the arts of production.

Fabulous wealth resulted from the invention of the machine and the introduction of the factory system. New comforts of life and increased leisure became possible. More goods, varied goods, cheaper goods, and, in some cases, even better goods could be produced in less time than had been possible in the age of handicraft and home work.

Although the industrial revolution has brought to many people the more abundant life in the form of improved planes of living and extended leisure, it has also increased economic instability and insecurity. Illustrations are unemployment, industrial accidents, and occupational diseases. Loss of ownership of the instruments of production has created a new class consciousness and a different social cleavage. Loss of control of conditions of employment has permitted a continuation and even an increase of exploitation. The machine, as we shall soon see, has not always promoted social harmony, nor has it set the workers free from drudgery and driving.

Although the population of Europe had remained almost stationary during the Middle Ages and had increased only slowly in early modern times, it doubled in the century following the industrial revolution. Not only did the population increase, but it also tended to migrate to great industrial centers. Huge cities, many times larger than medieval towns, sprang into existence at strategic points. Urbanization, as well as industrialization, resulted from the black magic of mechanization.

13. Dilemma of Modern Industrialism.—This brief review of the changes wrought by the industrial revolution indicates that modern economic society is far different from that which existed in the days of the guildsman and the domestic system. The introduction of power machinery and the factory system has produced a new economic order and has created unprecedented social problems of industry.

The genii which Watt discovered under the lid of a steaming kettle are able to lighten the tasks of the worker and to bring him new comforts of life. On the other hand, the machine and the minute division of labor which it involves may become oppressive and relentless tyrants. The Iron Man of modern industrialism can be either a servant of civilization or a fiery Moloch which demands its human sacrifice.

Time and space have been conquered by new inventions in communication and transportation. The entire world is at our doorstep. The

dangers of rapid transportation, however, have increased with its speed. Again, points of contact have multiplied and human interdependence has increased. Economic progress has its costs as well as its comforts, and its dangers as well as its delights. Hence increased technological progress must be accompanied by, or at least followed by, improved social control of industry.

14. Nature of the Machine.—The industrial revolution has been defined as the series of changes involved in the substitution of power machinery for the hand tool and the factory system for the domestic system. Modern industrial life presents the triangle of mechanization of process, standardization of product, and specialization of producer. Since the Iron Man is the dominant figure of our materialistic civilization, let us examine more closely the nature of the machine and even more carefully weigh its advantages against its disadvantages.

The machine may be regarded as a tool or series of tools operated automatically, rather than guided by human skill, and propelled by mechanical power, rather than by human muscle. Indeed, machines are commonly classified by the degree of automaticity which they embody.

A machine consists of three parts: (1) the operating tool or series of tools, (2) the motor, and (3) the gears or connecting mechanism.

15. Advantages of Machines.—The advantages of the machine are too numerous and too apparent to expatiate upon. Compare a modern revolving power press with the former hand press or with the still more primitive method of copying manuscripts by hand. Such illustrations might be multiplied, but the student is fully aware of the advantages of the machine and of the dominating role of capital in modern life. By means of mechanical inventions, economic productivity has been so increased that much more wealth can be produced now in a few hours than formerly in a much longer time. If the gains of economic progress can be well distributed, planes of living can be raised and leisure time can be increased for all members of society; if these gains of economic progress can be stabilized, the ravages of the business cycle can be reduced.

16. Disadvantages and Dangers of the Machine.—Machine production requires minute division of labor, which is both monotonous and fatiguing. Nevertheless, the introduction of the factory system was accompanied by long hours of work from sunrise to sunset.

Again, the increased use of capital in the form of specialized machinery made the process of production more roundabout, as well as more highly specialized. Hence the danger of maladjustments between the demand for labor and the supply of labor was increased. An immediate effect of the introduction of power machinery was the loss of employment by many hand workers. The craftsmen, who lost their jobs by these changes of the industrial revolution, sometimes retaliated by wrecking the new

machinery and by burning the factories. These industrial maladjustments incident to the process of mechanization may be regarded as social costs of economic progress.

As the tending of machinery did not require the skill of craftsmen or the strength of men, machines could be operated by women and children. A sad page in the history of the industrial revolution was that of the exploitation of these unorganized and defenseless workers, particularly the children of pauper parents in English poorhouses.

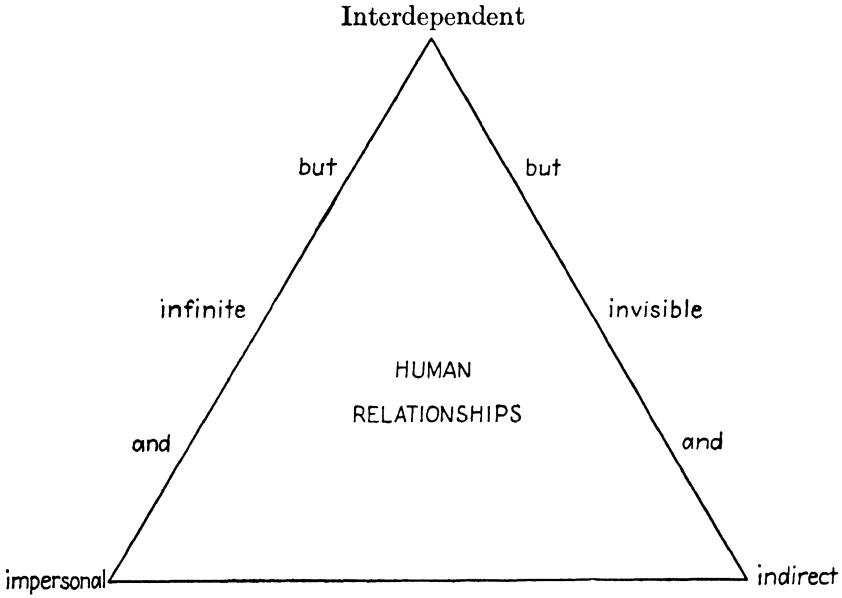


CHART 6.—The social order in this machine age.

The new machinery was too expensive to be owned by the workers themselves. Hence they lost ownership of the instruments of production and control of conditions of employment. A new group of capitalists arose who took over the balance of power from the former landed aristocracy. A different social stratification and a new class consciousness were created.

The industrial revolution is a relatively recent event in the long story of economic evolution, and society is still suffering from numerous maladjustments which followed in its wake. Great possibilities for good and grave social dangers are woven inseparably into the fabric of modern industrialism. Economic progress has had its human costs; and broad social welfare has sometimes been sacrificed to national prosperity.

17. Impersonality and Interdependence of Modern Industrialism.—The complex industrialism of today affords striking contrasts to a simple

agricultural community, such as that of our pioneer ancestors. The economic relationships of a local economy and of an agricultural community were direct, personal, and limited, as compared with the complex, impersonal, and expansive character of modern economic life.

Even within the towns, the commercial and industrial life of the premachine period was relatively simple, direct, and local. The handicrafts were learned by an apprenticeship system, which was personal and almost paternal. Honesty was apparently the best policy for the medieval guildsman, since he could rarely escape direct responsibility for the quality of his own products, which could generally be identified and which were often before their maker in the local community.

The development of modern industrialism has completely changed this situation. Modern relationships are indirect and impersonal. Nevertheless, division of labor has made countless individuals, often unknown to each other, interdependent to an unprecedented degree. The development of extreme specialization and extensive markets has made our economic and social interrelationships infinite. We produce not for a few individuals who are known to us but for a distant and impersonal market. We consume daily the commodities and services produced by innumerable strangers.

18. Social Results of Economic Changes.—What are the consequences of such a situation? Who, indeed, are our neighbors? Although they are infinite in number, many are invisible to those with whom they have frequent and important relationships. The growth of big cities, large-scale production, and huge corporations has intensified the complexity, interdependence, and impersonality of modern life. Urban dwellers frequently do not know those who reside in their immediate vicinity. Employers cannot keep in personal touch even with their own employees or customers. Stockholders know little of the details of the business of which they are the ultimate owners. Absentee capitalism has supplanted absentee landlordism.

Personal relationships beget sympathy and understanding, but impersonal relationships often result in apathy and misunderstandings. Thus the constant pressure to pay dividends may influence plant managers to cut financial expenses at the social cost of lowered wages. The wearers of fashionable clothing may not know that their garments were produced under sweatshop conditions. The receivers of income from an estate in trust may know little of the uses to which their real estate is put and nothing about the hardships which their foreclosure of a mortgage may involve. The lure of a low price may induce the kindhearted but ignorant consumer to buy with avidity Christmas gifts produced by child labor and to ignore the products of shut-ins who are striving to maintain their economic independence.

In short, not only has increased specialization been accompanied by increased interdependence, but also greater complexity has been accompanied by greater impersonality. Such a situation has especial dangers and requires additional social controls. It is now easier than ever for one to commit an antisocial act and to escape detection and even to avoid full realization of its social consequences.

19. Social Morality Necessary.—The impersonal but interdependent character of modern economic life necessitates a long-range instead of a short-range vision; it has sometimes been called a "scientific morality." Altruism must supplant a "tooth and claw" individualism; a social consciousness must supplement an individual conscience. Individual morality must broaden into a social morality, if the meek, or indeed anyone else, are to inherit the earth and to survive this machine age. If modern civilization is not to destroy itself by its own inventions, a scientific morality or a social ethics must come to the rescue. Swift and sound educational progress must be made for the group to catch up with its own economic techniques. If the feet get too far in front of the head, a disastrous fall may result. Perhaps that is what has happened to modern civilization, the material advances of which have outstripped its spiritual growth.

Technological progress, as exemplified by scientific discoveries, mechanical inventions, and industrial improvements, had taken place at a bewilderingly rapid rate of speed. The failure of social adaptation to proceed with equal rapidity had created a serious and continuous series of social maladjustments. This situation was well illustrated by the new industrial revolution in the United States, which culminated in the great economic depression, precipitated by the crash of 1929, which was followed, in turn, by the social revolution introduced in 1933 and popularly known as the "New Deal." Social adjustment, which had lagged far behind economic changes, suddenly expressed itself in drastic innovations and in wide expansion of governmental activity.

20. Higher Social Ideals Possible.—Not only do recent economic changes necessitate a broader social morality, but also they permit higher ideals in industry. Simon N. Patten regarded the industrial revolution as a period of transition from an older economy of pain and deficit to a new economy of pleasure and surplus. A mechanized Garden of Eden now lies before our very eyes, but economic man, long accustomed to live by bread alone, earned in the sweat of his brow, views this superabundance as overproduction and permits this new leisure for all to become unemployment for many. In truth, a puzzling paradox of plenty, rather than a surplus economy of pleasure.

Recent inventions and discoveries have so increased production that ruthless conflict is no longer imperative; exploitation is neither eco-

nomically necessary nor socially justifiable. Nevertheless, past traditions of individual acquisition, instead of the new ideal of social service, continue to dominate our thoughts and actions. The gain spirit and the profits motive have made us evaluate not only economic goods but also social success and human service in terms of the dollar mark. In such a critical vein, Thorstein Veblen has condemned the predatory practices of the past and the conspicuous consumption of the leisure class.

Revolutionary economic changes permit, as well as require, a commensurate social adjustment, in which industrial cooperation can triumph over industrial anarchy and in which competition can be expressed in desirable and productive ways. But a social morality will supplant an individual morality only when "he profits most who serves best," or, to put the same thought in different words, only when acquisition is limited to and proportionate to production.

The transition from a deficit economy of pain to a surplus economy of pleasure should stimulate the development of nonpecuniary concepts of value, social standards of production, and aesthetic ideals of consumption. In his "Vision of Sir Launfal," Lowell compared pecuniary and nonpecuniary values as follows:

> For a cap and bells our lives we pay
> 'Tis Heaven alone can be had for the asking.

The dignity of labor lies in its social usefulness, rather than in its rate of compensation. The highest forms of gratification depend on the plane and not on the plenty of consumption; the problem is qualitative as well as quantitative. An expensive article may, nevertheless, be cheap and tawdry, while an inexpensive one may yet be a thing of beauty and a joy forever. Such was the message of John Ruskin and his disciple, John A. Hobson.

It is natural for the social traditions of past generations to dominate the thoughts and actions of succeeding generations, although conditions have changed greatly in the meantime. Thus, struggle, a caste system, and sharp practice were parts of the social pattern of antiquity. But the progress of science and the invention of power machinery have made possible increased leisure time, higher standards of living, and improved working conditions. Nevertheless, public opinion and legislation are slow to adjust themselves to these new conditions. Social inertia or the passive resistance of culture lag has been a tremendous obstacle in the pathway of social progress. *Laissez faire* or the political philosophy of "hands off" industry, as we shall see in the following chapter, has also impeded social readjustment.

Summary.—Capitalism is an economic order or social system characterized not only by increased use of capital but also by private property

and individual enterprise, rather than by collective ownership and operation of the instruments of production. Capitalism also involves money, exchange, markets, wage system, profits motive, price mechanism, freedom of contract, and numerous other features. Industrialism is the recent phase of capitalism which was introduced by the industrial revolution. It is essentially mechanization and mass production.

The industrial revolution may be defined as the invention of power machinery and the substitution of the factory system for the domestic system of manufacture. It appeared first in England in the latter half of the eighteenth century in the great mechanical inventions in the textile industries. The industrial revolution later developed improved methods of transportation, communication, and illumination. It spread from England to the continent of Europe, to America, and to the Orient.

The industrial revolution has changed not only our methods of production but also our modes of life. Machine production has meant more goods in less time, *i.e.*, increased wealth with greater leisure. But these gains of the industrial revolution were not evenly diffused throughout society. The immediate effects of the factory system were increased exploitation rather than greater social welfare.

Modern methods of production are dangerous, monotonous, and fatiguing. Moreover, the use of power machinery has meant loss of ownership of the instruments of production by the workers, and the factory system has resulted in loss of control by employees over conditions of their employment. Industrialism also has made modern economic society extremely interdependent, highly standardized, and very impersonal.

The dilemma of modern industrialism refers to the social costs of economic progress, *i.e.*, the relative advantages and disadvantages of the industrial revolution. It would seem that technological progress in the arts of production has been more rapid than our social adjustment to these economic changes; hence the existence of culture lag and the persistence of social unrest.

Questions for Discussion

1. *a.* Give a definition of capitalism, including its essential features.
   b. When and where did the coming in of capitalism take place?
2. *a.* Define industrialism in at least two ways. Compare definitions.
   b. When and where did industrialism emerge?
3. *a.* Distinguish between revolutions in economic techniques and revolutions in social institutions. Illustrate each type.
   b. "There have been several economic revolutions, which together constitute an economic evolution." Explain.
4. *a.* What do you understand by the industrial revolution?
   b. Interpret in both narrow and broad senses.
   c. What is meant by the broadening and continuing phases of the industrial revolution?

5. Outline and organize the results of the industrial revolution under such headings as (*a*) economic, (*b*) social, (*c*) political, and (*d*) cultural. Which seem of primary and which of secondary importance? Some results must be listed in more than one column. Create other headings, if necessary or preferable.

6. *a.* Define a machine in several ways.
   b. What is the essential feature of a machine?
   c. What are the three main parts of most machines?

7. *a.* What is a dilemma? Why is it common in social studies?
   b. How is a dilemma related to culture lag or to social maladjustment?
   c. What is meant by the dilemma of the machine? Illustrate.

8. How do industrialization and urbanization create new and difficult problems of social control?

Topics for Investigation

1. Great inventions of the early industrial revolution in England.
2. Industrialization of the United States. This study can be limited to a particular period or to a specific area.
3. Industrialization of the Orient or of South America.
4. Case study of the industrialization of some particular community, *e.g.*, establishment of a war industry. Distinguish between causes and effects, between immediate and remote results, and between good and bad influences.
5. Ruskin's contempt for the machine and his distinction between wealth and illth.
6. Hobson's attempt at a human valuation in economics. Criticize and contrast with pecuniary values.
7. Pigou's concept of a welfare economics.
8. Patten's contrast between a deficit and a surplus economy.

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CHAPTER III

THE BACKGROUND IN POLITICAL INSTITUTIONS

OUR LEGAL RIGHTS

1. Medieval Control of Industry.—During the Middle Ages what is now known as the national state was nonexistent or impotent. Under feudalism the manor was the economic, social, and political unit. Social control of industry was local and crude. "Regulation" of commerce was more predatory than beneficial; *e.g.*, robber barons frequently tapped what little trade trickled through their domains. The manorial lords cruelly exploited the serfs to maintain their own military hierarchy.

Medieval guilds were local organizations for the control of industry. They formulated and enforced minute regulations concerning the occupations of their members. Thus, night work was frequently prohibited, weights and measures were regulated, and the adulteration or cheapening of products was often forbidden. Guild members were generally protected against the competition of nonmembers and foreigners.

2. Nationalism and Mercantilism.—The transition from medieval to modern times was featured not only by the coming in of capitalism but also by the strengthening of national states. There was an evolution from localism to nationalism, as well as from feudalism to commercialism. With the decline of the manorial system and the guilds, a new program of governmental control, known as the "national system," developed. As powerful central governments evolved out of the former feudal confusion, they began to regulate industry and commerce. In England, for illustration, the strong monarchy of the Tudors expressed itself in both economic and political measures. The Statute of Apprentices, for example, made labor compulsory and imposed on the local justices of the peace the duty of fixing wages.

The economic philosophy of this period, known as "mercantilism," reached its greatest development in the seventeenth century. Mercantilism emphasized foreign trade and measured national prosperity in terms of a favorable balance of trade. All sorts of nationalistic regulations were imposed on commerce and industry in order to accomplish this desired result. A large and industrious population working long hours was favored.

3. Rise of Laissez Faire.—A reaction finally set in against extreme nationalism and excessive governmental interference with industry. In

1776, appeared Adam Smith's "Wealth of Nations," a book which had great influence on both economic theories and practices. The "father of economics" made his central thesis that of *laissez faire* or the let-alone policy. He argued the case for free trade among nations and strove to show that industry would flourish best when freed from the vexatious regulations of governments. Adam Smith regarded the functions of government as limited to three fields: (1) protection of its citizens from foreign invasion; (2) maintenance of justice at home through the courts; and (3) establishment of certain public works and institutions uneconomical for individuals themselves to maintain.

The economic philosophy of *laissez faire* was expressed in the political policies of statesmen. During the early years of the nineteenth century British parliaments removed many of the older restrictions on trade and industry. Thus, the Statute of Apprentices, which permitted wage fixing, and the Corn Laws, which prevented the free importation of grain, were finally repealed. The doctrines of *laissez faire* were eagerly seized upon by the rising manufacturing classes, as they resented governmental interference with working conditions and opposed the passage of factory laws. Indeed, this policy of *laissez faire* is sometimes called that of the *Manchester School*, because of its advocacy by those manufacturers. It is also termed "liberalism" in contrast to mercantilism, and "individualism" in contrast to nationalism or paternalism.

4. Fall of Laissez Faire.—The industrial revolution brought about new conditions which made untenable the former theory of *laissez faire*, or let alone, in industry. Under the dominance of a philosophy of individualism little children and mothers toiled in factories and mines under horrible conditions. England was confronted with a condition as well as with a theory. In spite of the hold of *laissez faire*, labor laws and other humanitarian legislation gradually came into existence.

Because of the bargaining disadvantages of individual workers, they sought to organize into trade unions and to negotiate collectively as to wages, hours of work, and general conditions of employment. Collective bargaining, however, was viewed by laissez-faire economists as a futile attempt to interfere with the natural forces of supply and demand which determined wages or as a socially undesirable effort to substitute monopoly for competition. Indeed, it was regarded by both common and statute law as conspiracy. But this laissez-faire attitude, in turn, began to wane, and governments gradually removed many of the obstacles which had been placed in the path of early labor organizations. Recognition and regulation of collective bargaining succeeded the former governmental attitude of open hostility.

5. Recent Trend from Liberalism toward Paternalism.—The present century has seen an even greater growth of governmental functions and

of collective economic efforts. The First and Second World Wars shaped the industrial activities of peoples in accordance with national needs during those crises. In the intermediate years the great world depression was cited as evidence of the planlessness of capitalism and of the dangers of individualism. Governments were forced by the ravages of war and depression to increase regulation of industry, to plan economic production, and to provide social security. Capitalism was challenged

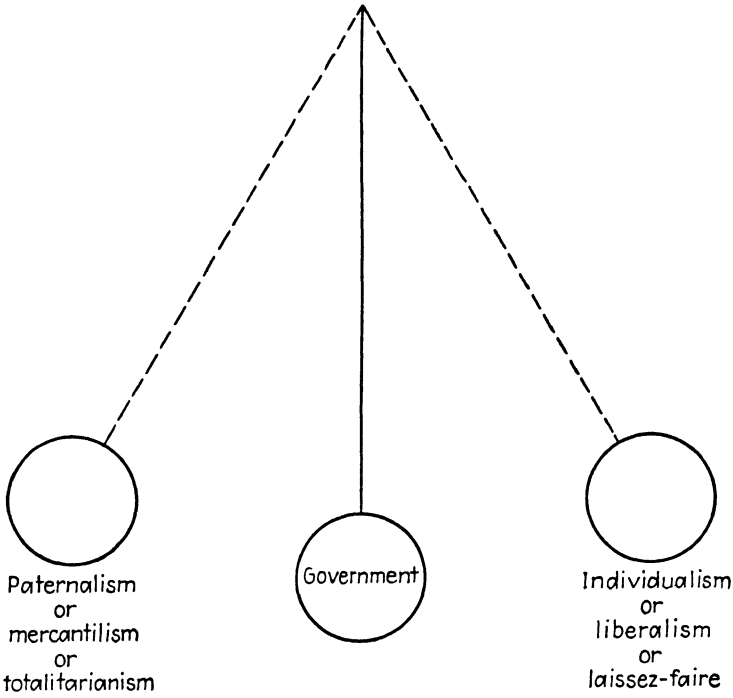


CHART 7.—The pendulum of government.

by rival systems of Communism, Fascism, and Nazism. Individualism was menaced by totalitarianism in Russia, Italy, and Germany.

The former theory of *laissez faire* has become a matter of mere historical interest. Although many individuals and organizations continue to plead for "less government in business," a return to the *laissez faire* of Adam Smith is unthinkable. Whether the future will witness a further increase in governmental regulation of industry, or a reaction in the other direction, remains to be seen. To the student of economic history, however, it is interesting to see how the pendulum has swung from mercantilism or the national system toward liberalism or *laissez faire*, and then from liberalism or individualism back again toward paternalism or governmental regulation.

6. Laissez Faire and Liberty.—One of the chief arguments used in support of *laissez faire* has been the allegation that it is essential to liberty. Freedom has been incorrectly interpreted as the absence of governmental interference with the actions of individuals. Nothing could be further from the truth, for government exists to protect the liberty of individuals rather than to restrict it. Indeed, the liberty of all individuals is secure only when the state is strong enough to punish lawlessness and license. The confusion of thought which made liberty identical with *laissez faire* can be understood only by remembering the despotic and dissolute character of the governments of the Stuarts and Bourbons. Under such a regime the chief threat to individual freedom came from the autocratic and arbitrary government then in power by divine right of kingship.

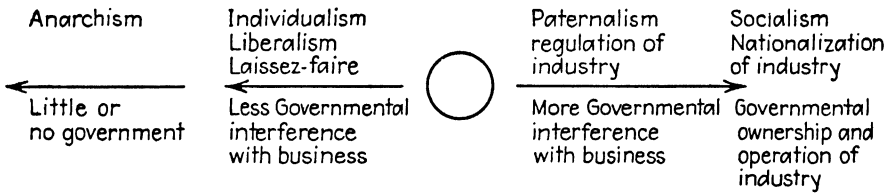


CHART 8.—Philosophies of government.

Although it may have been true before the French Revolution that individual liberty could be secured only by a curtailment of the powers of government, which then resided in the sacred person of a hereditary monarch, it does not follow that freedom and government are opposing concepts. Nor are freedom and *laissez faire* identical. The best government is not necessarily that which governs the least. Even the townsmen and merchants of the Middle Ages knew that the strong monarchy of the sovereign king was their best protection against the lawlessness of the feudal barons. In a modern democracy, liberty resides in a capable representative government, not in anarchism or the absence of government.

Law and liberty are as closely related as government and freedom. The liberty of all individuals can be secured only by enough legislation to protect the weak against the strong, the underprivileged or unprivileged against the privileged, and the social members of society against the unsocial. This is the new freedom; it is fostered by reasonable, governmental regulation of industry. It is menaced by anarchism or excessive individualism, because that is generally climaxed by dictatorship riding into popular favor on empty promises of peace and prosperity.

7. Individualism and Paternalism.—The interdependence of individuals and the social character of business were stressed in the first two

chapters. The great depression was regarded as a maladjustment; it was viewed as a problem of culture lag. The depression was followed by the New Deal of President Roosevelt, during which individualism was succeeded by paternalism, and moderate, decentralized government was replaced by strong, centralized government. The old three I's of inequality, insecurity, and instability, were met, it was noted, by the new three R's of relief, recovery, and reform.

The National Recovery Act forced industries to formulate codes and to raise social standards of work. The only remaining alternatives seemed to be those of direct regulation of industry by government or outright governmental ownership and operation of industry. "Rugged individualism" was held to be conducive to industrial anarchy. The sweet reasonableness underneath the liberalism of Adam Smith was regarded as pre-Victorian.

Although an extension of paternalism may point toward socialism, it is equally true that the logical extreme of the opposite philosophy of individualism leads toward anarchism, which is the complete absence of government as expressed in the political state. Under anarchism the rights of the weak may be ignored by the strong. Hence, anarchism, or too little government, may be a greater threat to individual liberty than socialism, or too much government.

8. Expanding Economic Functions of Government.—Numerous attempts have been made to classify functions of government. Some writers differentiate between the *primary functions* of the state, such as protection from foreign invasion and domestic disorder, and the *secondary functions* of the state, such as regulation of industry.

These latter functions may be subdivided according to those occupations which are predatory or represent *cut-throat competition*, those which are characterized by legitimate and *beneficial competition*, and those which are *noncompetitive* or natural monopolies. Predatory occupations should be suppressed, and the plane of competition should be marked out in other competitive industries. Those industries in which competition is self-destructive should be recognized frankly as natural monopolies, to be placed under governmental operation or strict governmental regulation as to rates and services.

Governmental activities with respect to industry may be classified further as those which are *prohibitive*, such as antitrust laws; those which are *promotional*, such as protective tariffs; and those which are *regulatory*, such as the control of interstate commerce.

The general problem of the social control of industry may be approached from a still different angle. Governmental regulation of industry may be classified according to whether it is exerted in the interest of *consumers*, *workers*, *investors*, or the *general public*.

Governmental protection of consumers may be illustrated by pure-food laws. The state has also been forced to regulate public utility companies in order to protect consumers against excessive prices and poor service.

The interests of the workers, as we know, have been profoundly affected by the invention of power machinery and the development of the factory system. Illustrations of governmental regulation of conditions of labor are factory laws protecting safety and health, social insurance providing financial security, and legislation stipulating maximum hours and minimum wages. It is with this general type of governmental interference with industry that this text is chiefly concerned.

The state has sought to protect the investor, as well as the consumer and the worker. The corporate form of business organization has divorced ownership from control and thereby facilitated the possibility of financial manipulation. Hence, many states have passed "blue-sky" laws, and the Federal Government has created the Securities and Exchange Commission.

Finally, there are miscellaneous regulations of industry which governments have initiated for the protection of the general public. The conservation of forests and the restriction of immigration may be classified under this type of governmental regulation.

9. Trend from Governmental Regulation to Operation.—Governmental regulation of industry has been supplemented or supplanted by governmental operation of industry. The increasing congestion of population and the growing interdependence of society have increased the number of things which can be done better collectively than individually and more economically by a single organization than by numerous competing firms. Common illustrations are the supplying of water, gas, and electricity and the disposal of sewage, garbage, and other refuse. Although often done on individual enterprise under governmental supervision, these services can be rendered by the government itself.

Relatively old functions of government were the building of roads, bridges, and aqueducts. Equally legitimate governmental functions in our modern machine age are the construction of municipal subways and high-speed transportation facilities.

Government construction has been extended from public utilities to private homes. Public authorities have engaged in slum clearance and the development of low-cost housing projects. This movement has long been under way in various European countries. In the United States, however, it took the great depression to move our people toward slum clearance and public housing projects.

10. Increasing Social Services of Government.—Municipal apartment houses and community theaters may be as common in the America

of tomorrow as are municipal swimming pools and community playgrounds today. Public hospitals may come to be regarded in the same light as public schools are now. A new ideal of social service seems to be supplementing the older idea of regulation of industry. The sphere of government is expanding; it is also turning from negative to positive phases; *i.e.*, from prevention to provision.

The socialization of the modern state may be illustrated by recent governmental attempts to provide social security against the industrial

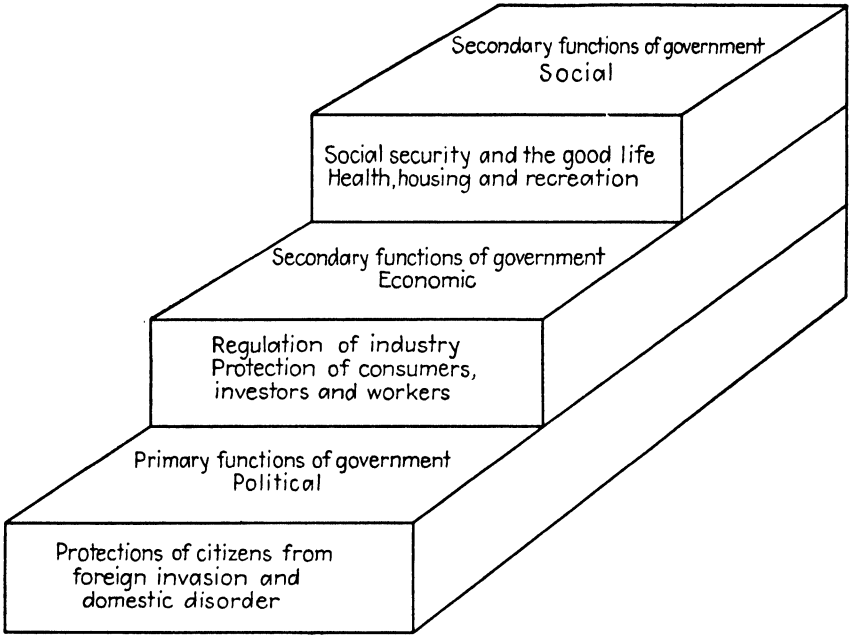


CHART 9.—Extension of governmental functions.

hazard of unemployment and to grant relief from the deprivations of poverty. These specters at our very doors have been regarded as threats to domestic tranquillity as menacing as foreign invasion or internal disorder.

In addition to social security and public housing, other relatively new responsibilities of government are coming into increased prominence. Among them are those of public health and recreation.

11. Public Education, Health, and Recreation.—Education has long been regarded as an important governmental function. Magnificent public high schools, the people's colleges, can now be found in almost every large town in the United States. Public health, however, would seem to be as important as public education and as worthy of state funds. A poor child is educated at public expense, for the entire group

benefits from an educated citizenry and suffers from popular ignorance. Is not the same argument sound for an extensive program of public health? The state might well inquire into the physical fitness, as well as the literacy, of its citizens. It should insist that every community provide adequate medical, surgical, and dental facilities for all groups of people.

Although the concept of public hospitals, similar to that of public schools, is fairly new, free clinics and wards in private hospitals have been in existence for many years. Periodic physical examination of school children also is common. Both public and private agencies are making a heroic attempt to reduce infant mortality and the hazards of maternity. A public sanitation and quarantine program also is fairly well advanced. State and municipal departments of public health are constantly extending their functions, powers, and opportunities for public service.

Recreation is closely allied to education; it is also related directly to health and housing. Hence modern cities have established public playgrounds and extensive parks and boulevards. Numerous well-equipped and well-organized community centers testify to recent civic progress in this direction. Free libraries, public art galleries, and museums of science also have been established by progressive communities.

Many of these new community enterprises were at first established by private philanthropy. Later they came to be regarded as public trusts and as legitimate functions of government. Such was the history of public education; this development now is apparently being repeated by the public housing, health, and recreation movements.

12. Significance of These Trends to Labor.—These new social functions of government are of especial interest to the student of labor problems. The public housing, health, and recreation movements mean as much to the workers as does the public-education movement. Increased leisure must be directed into wholesome and beneficial channels. More satisfactory living conditions are as important as more satisfactory working conditions. Improved consumption is as essential as increased production, to which incidentally it may contribute much.

In addition to these enlarged social functions of the state there are some new governmental services of even more direct interest to the workers. Public employment bureaus have been founded to seek jobs for the unemployed, and boards of mediation and conciliation have been established for the reduction of industrial conflicts. These will be discussed at greater length in later chapters.

13. Social Concept of Private Property.—An increase in the economic functions of government and an extension of its social services are frequently opposed by honest but conservative defenders of individual

enterprise and also by vested interests whose private profits are threatened. Hence it seems necessary to explain the social nature of the institution of private property.

In their final analysis, private property rights emanate from society. Therefore, they can be modified by society's sober judgment, reversed in the light of new conditions, or restricted by higher ideals of social justice. No matter what theory of private property is held, that institution can be defended only on the broad grounds of social welfare and not in the narrow path of individual profits. Although the hold of the vested interests may be strong, any form of private property must go when it becomes inimical to what can be demonstrated to be the best interests of society.

Private property rights are relative, modifiable, and social, rather than absolute, unchangeable, and individualistic concepts. The courts have decided that the power to tax is the power to destroy, and that this power may be levied against a property right. On the other hand, it is equally important to note the danger of a sweeping indictment of such a fundamental institution as that of private property. Qualifications must be made concerning different kinds and forms of property rights. A thoughtful man may seek changes in the political state or modification of private property rights, but not the complete and immediate abolition of these two important and related institutions.

14. Modern Critics of the Institution of Private Property.—Our social morality is changing and with it our ideas concerning the institution of private property. Less than a century ago human slavery existed in this country and was enforced by the laws of the land. It required a bloody Civil War to amend the Constitution and to modify our institution of private property in this respect. Today, this institution is still under fire by various schools of economic abolitionists and revisionists.

The *single taxer* contends that "the earth is the Lord's and the fullness thereof." Natural resources are a free gift of nature and not the result of the labor of man. The appropriation of this common heritage for their own use or abuse by powerful but selfish individuals is regarded as little worse than the appropriation of the persons and services of one's fellow men. Consequently, the single taxer would abolish or seriously modify the institution of private property in land.

The *socialist* would go further in his war against capitalism, for he objects to private property rights in capital as well as in land. Although land is a free gift of nature, capital is the result of labor and abstinence. In the opinion of socialists, however, society should own its capital collectively and should reward production rather than mere ownership.

The *communist* goes even further, for he opposes the institution of private property in general. The *anarchist* would destroy the present political state, which is the great bulwark of the institution of private

property. *Communist anarchists* and *syndicalists* oppose both the institutions of the state and private property.

Conservative reformers approach the problem from a different angle. They would not confiscate private property in land or capital, but they would limit the right to bequeath enormous fortunes. As the right of inheritance is viewed as the chief source of economic inequality, these critics urge that each individual be compelled to stand on his own feet rather than be carried on the shoulders of his father. Partly from social policy and partly for the sake of additional revenue, governments have turned to progressive inheritance taxes, as well as to progressive income taxes.

15. Property Rights and Human Rights.—Some critics of our economic order have pointed out the perennial conflict between property rights and human rights. When a newly recognized human right conflicts with an old established property right, the latter must go. Our forefathers recognized the institution of human slavery, and slave owners possessed the legal right to own and to exploit their fellow men. The abolition of slavery was confiscatory of the property right of slave owners in favor of the human right of slaves to their individual liberty. The abolitionists of the North spoke of a higher law than that of the United States, and John Brown was willing to give his life for a cause which was morally right but legally wrong. A modification of the antebellum institution of private property was demanded by rising ideals of social justice throughout the entire land.

The rigid maintenance of certain property rights today may conflict with the human rights of some exploited workers. Hence, the passage of labor laws in their behalf. On the other hand, the introduction of a mandatory minimum-wage and maximum-hour law, for example, interferes with freedom of contract, which the courts have held implicit in the property right guaranteed by the Fifth and Fourteenth Amendments of the Federal Constitution. But fair-labor-standard laws assume that there is a still higher human right of workers to live decently and to work in healthy surroundings for only a reasonable length of time; they likewise assume a more flexible concept of private property rights.

In contrast to the former attitude that business was an individual venture of the employer, there is growing up a new concept of industry as a social responsibility. Large fortunes are now regarded by some owners as public trusts, not merely as private property. As the growing functions of government attest the increasing socialization of industry, so the expanding powers of government affirm the increasing limitations on individual initiative and private property rights.

16. Democracy of the Founding Fathers.—The Declaration of Independence, the product of a revolutionary era, affirmed our belief in

certain natural or inalienable rights of life, liberty and the pursuit of happiness. The Constitution, drawn up in a more conservative decade, stressed the right of property, as well as the rights of life and liberty.

The Constitution of the United States was formulated in the period of *laissez faire* and in the pioneer atmosphere of individualism. Colonial America was agricultural and not industrial. The democracy of the Fathers was a political rather than an economic idealization; it was more theoretical than practical; its implications were greater than its applications.

These factors determined the nature of the Constitution of the United States and the character of the early amendments to it. Civil and political rights were stressed, and citizens were granted protection against the encroachments of an arbitrary central government. Human slavery was not prohibited but permitted; equality of opportunity was not assured but assumed.

17. Labor Problems and the Federal Nature of Our Government.—The United States is a federal government and Congress possesses only those powers which are specifically given to it in the Constitution. All residual rights and powers are vested in the several states.

The small but important provision in the Constitution which gave to Congress the power to regulate interstate commerce has been the legal rock on which developed Federal control of big business. The progress of social and humanitarian legislation, however, was long retarded by the fact that these matters were regarded as falling largely within the province of the individual states. The power to tax, as well as the power to control interstate commerce, has been the legal basis of much Federal regulation of industry.

Labor legislation, for the most part, and for a long time, was held to lie within the residual powers of the state governments. Hence uniformity of standards or procedure was well-nigh impossible within the United States. Again, strict regulation within one state might cause an industry to seek refuge across its boundary. This mere threat was sometimes sufficient to defeat within a particular state the passage of desirable labor legislation. Federal legislation has been the only means of securing uniformity; but in many cases such Federal legislation was held to require a Constitutional amendment. This was formerly the case with child-labor laws and legislation providing minimum wages and maximum hours. With the advent of the New Deal of President Franklin D. Roosevelt, however, such Federal laws were passed, based generally on the interstate commerce power of Congress. Their passage represented a growing centralization of government and their validation by the courts constituted a broadening interpretation of the Constitution.

The federal nature of our government has had its advantages as well as its disadvantages. Although it may have been impossible to pass a certain labor law within Congress, public opinion in one or more of the several states might sanction it. Hence the legislation of progressive states has been in advance of that of the entire country. The federal nature of our government made possible experimentation with various types of labor legislation and with different reform projects. Thus, Kansas, Wisconsin, California, and several other states have been experimental laboratories, the results of laws within which have been watched with great interest and profit by all other states in the Union.

Although the United States is a federal government, not a unitary one, centralization of power has been taking place. The individual states have been increasing their authority over health and education, which were formerly regarded as local matters. Similarly and simultaneously, the Federal Government has been increasing its powers at the expense of the states. This tendency was first expressed in an extension of Federal subsidies to states which cooperated in building roads or raising standards of vocational education. As we shall see later, a similar principle was embodied in the Social Security Act of 1935, which provided that the Federal Government should match state pensions to the aged and return pay roll taxes to those states having satisfactory unemployment compensation laws.

18. Labor Problems under a Written Constitution.—The fact that the United States is a constitutional democracy with a written constitution is also important to the student of labor problems. Although a democracy with a written constitution possesses some advantages over one without it, any written constitution, no matter how good and liberal in its day, must later present a serious problem of adjustment to a dynamic, growing society. Although economic conditions have changed rapidly during the past century, it has been difficult to amend the American Constitution in some important respects. Consequently, legislation which attempts to formulate changes in public opinion and to solve new problems, or changing aspects of old ones, must meet continually the test of constitutionality.

This difficulty has been especially noticeable in labor legislation, for the industrialization of the United States and the development of labor problems took place several generations after the adoption of the Federal Constitution. The test of the constitutionality of labor legislation is a challenge not faced by a country such as Great Britain, which does not have a written constitution and whose Parliament can pass whatever legislation it regards as most suitable for new conditions. Such legislation can be repealed or amended in the light of practical experience; it cannot be declared unconstitutional.

On the other hand, there are certain advantages of a written constitution to the individual citizen. Former Chief Justice Taft stated its case as follows:

> The Constitution was intended, its very purpose was, to prevent experiment with the fundamental rights of the individual. We said through Mr. Justice Brewer in *Muller vs. Oregon* that "it is the peculiar value of a written constitution that it places in unchanging form limitations upon legislative action, and thus gives a permanence and stability to popular government which would otherwise be lacking."[1]

19. Individual Freedom and Constitutional Guaranties.—The early amendments to the Constitution, known as the "Bill of Rights," were designed to preserve the individual liberties of our citizens against the encroachment of the Federal Government. Thus, the Fifth Amendment provides that no citizen shall be deprived by Congress of life, liberty, or property without due process of law. The Fourteenth Amendment, which was designed to give the Negro the legal protection of citizenship, provides that no state may deprive its citizens of life, liberty, or property without due process of law. Similar guaranties of individual liberty are contained in the constitutions of the several states.

As the right of property has been held by the courts to include freedom of contract, it is difficult for either the Federal Government or a state to pass a law which abridges this freedom of contract of worker or employer. The courts have held that certain labor laws interfered with individual freedom of contract. For example, workmen's compensation laws and, still later, minimum-wage laws had to jump this constitutional hurdle. Hence these so-called "constitutional protections" have often meant that the actual economic freedom of the worker has been sacrificed to his theoretical legal rights.

This situation is further involved by another constitutional proviso that "no state shall . . . pass any . . . law impairing the obligation of contracts."[2] This constitutional clause was inserted to prevent repudiation of debts by the states. Its practical result has been to make difficult the regulation of public utilities and business corporations. It has also been an obstacle in the path of labor legislation.

20. Legal Equality and Economic Inequality.—The constitutional guaranties of "life, liberty, and property," and "due process of law" phrase, and other clauses in the Constitution have expressed our belief in the vital importance of equality before the law. Indeed, equality before the law is far older than the Federal Constitution of the United States. It is regarded as the legal birthright of all citizens under common, as well as constitutional, law.

[1] *Truax v. Corrigan*, 257 U. S. 312, 1921.
[2] Art. I, Sec. 10.

Legal equality, however, must be distinguished from biological equality, on the one hand, and economic equality, on the other hand. Individuals are not born with equal physical or mental abilities; nor are they born into identical social environments with the same economic opportunities.

Equality before the law is not synonymous with equality of opportunity in the business of getting a living. Herein lies the argument in favor of minimum-wage laws for women or other groups which possess so little bargaining power that they are in danger of being exploited by a more powerful group. Opponents of such legislation regarded it as violation of legal right of freedom of contract or as class legislation.

21. Discrimination and Class Legislation.—A law cannot properly be regarded as class legislation unless it is unreasonable in its provisions, *i.e.*, unless it is not designed to serve some useful object, or unless its social purpose is not commensurate with the injury inflicted. Thus a law forbidding the wearing of fur coats would be an unreasonable discrimination against individuals owning these luxuries, whereas an ordinance forbidding smoking in streetcars is a reasonable discrimination against smokers in favor of the general interest of the riding public. The latter ordinance, unlike the former, serves a social purpose. Hence it cannot be regarded as an unreasonable or a capricious discrimination. It does not violate equality before the law.

22. Nature of Equality before the Law.—Many pieces of labor legislation have improperly been called violations of legal equality, because they have taken cognizance of economic inequalities and have legislated differently for different groups. In the field of public finance the principle of progression in taxation was at first regarded as discriminatory. It was finally held, however, that the principle of uniformity means not a flat rate of taxation for all incomes, but that all individuals having the same incomes must pay the same rate of tax; the rate of taxation might be greater in the higher brackets of income and smaller in the lower brackets. The principle of equality before the law cannot mean that all persons must be treated similarly under all conditions, but only that similar conditions must receive similar treatment for all people.

23. From Master and Servant to Employer and Employee.—Labor legislation has passed from the old dispensation which treated of the legal relationship between master and servant to the new dispensation which treats of the rights and duties of employer and employee. Although the former master and servant relationship pretended to treat the two as equals before the law, it retained important characteristics of an earlier servile state.

In order to raise the legal status of the worker from that of servant to that of employee, the law found it necessary to recognize important

differences in the economic conditions of employer and employee. It sought to provide a real rather than a fictitious equality before the law by coming to the rescue of the group in the inferior bargaining position. Otherwise, economic inequalities between employer and employee under modern conditions of capitalistic production would perpetuate dependency and permit even greater exploitation.

24. Labor Legislation and Police Power of the State.—The police power of the state has been invoked by the courts to defend social

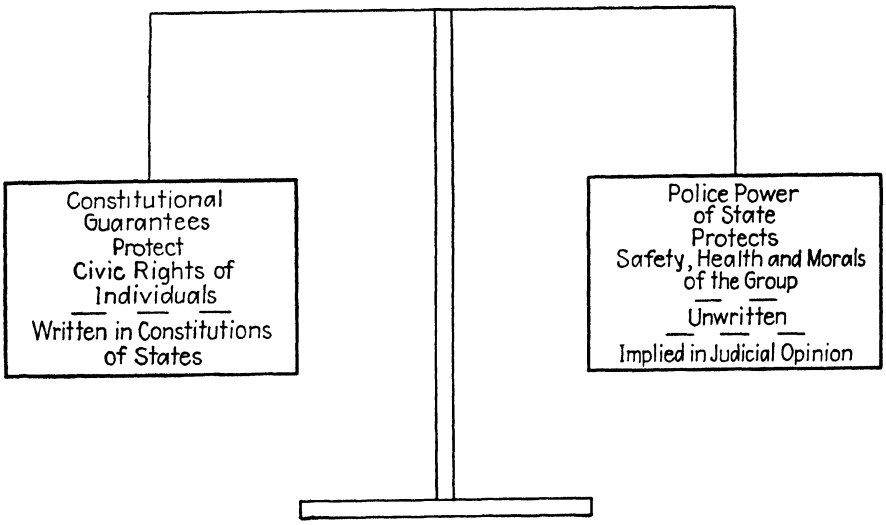


CHART 10.—Political balance.

legislation which encroaches on individual liberty, property, and freedom of contract. It may be regarded as a residual power of the state to pass legislation or to enforce executive mandates when the social interest requires that these constitutional rights of individuals be sacrificed to the common safety, health, or welfare of the group. "The police power is an indefinite authorization for the American State to abridge liberty or property without consent or compensation in addition to its more general powers."

Under the police power of the state an individual suffering from a contagious disease may be deprived of his liberty in the interests of the health of his fellow citizens by an enforced quarantine. Again, cattle suffering from the hoof and mouth disease may be confiscated and killed, which represents the taking of property without compensation, in

[1] COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," rev. ed., p. 13, 1927.

order to protect the property of other members of the group. But in all such actions it must be clear that the loss to the individual is less than the gain to society.

The police power of the state has an important bearing on labor legislation, a large portion of which looks to it for its authorization. Thus the police power of the state has been used to justify the passage of child-labor legislation, laws for the restriction of hours of work and improvement in conditions of employment of women, and safety legislation for all employees.

The effect of the police power is to impose a burden, or to exercise a restraint, on some individuals for the benefit of all other individuals. But the final defense of such legislation rests on whether or not a public danger is thwarted or a public benefit is gained. Otherwise, such legislation represents special privilege or class discrimination. The sovereign power of government must not be used to further private purposes, whether they be those of manufacturers or those of trade unionists, the special interests of capital or of labor.

The states accomplish under the police power what the Federal Government accomplishes under its taxing powers or under its interstate commerce powers. But the concept of the police power may be used in a broader sense

> . . . to imply all the powers of government, whether of police, taxation or interstate commerce, in so far as they are used to justify that indefinite expansion of power to abridge liberty or property without compensation for some newly recognized public purpose. . . . In this way without formal amendment the American constitutions are unconsciously amended by the police power through the change of public opinion regarding the rights and liberties of labor.[1]

25. Political Philosophies and Policies.—The laissez-faire philosophy of Jefferson and Jackson, two patron saints of the Democratic Party, was that of the country squire and the frontiersman. Individualism was popular and practical as long as America was largely agricultural and plentifully endowed with good land to be had for the taking. But the industrialization of the United States after the Civil War transformed this let-alone attitude of the small farmer into the laissez-faire doctrine of big business. The Sherman Act of 1890 was an attempt to enforce the fair and free competition of the small tradesman on the huge corporation of a new era. Both its advisability and its practicability have been questioned. The general policy was reversed in such recent legislation as the National Industrial Recovery Act.

As early as the administration of Theodore Roosevelt there were some indications of an abandonment of the older philosophy of *laissez faire* in

[1] *Ibid.*, p. 17.

favor of the revived doctrine of strong government, which showed itself definitely in a more vigorous policy on the part of the Federal Executive. This new tendency was displayed positively in Theodore Roosevelt's attempt to settle the anthracite strike, as well as negatively in his crusade against the trusts. In the first instance, the "big stick" was supported more by public opinion than by constitutional authority.

Although the administration of President Taft represented somewhat of a reaction toward greater conservatism on the part of the Federal Executive, these four years witnessed the passage of numerous state laws concerning child labor, minimum wages for women, workmen's compensation, and other social problems of industry. *Laissez faire* was waning more rapidly in the individual states than in the National Government.

The New Freedom of Woodrow Wilson is now regarded as a prelude to the New Deal of Franklin D. Roosevelt. Although confined to relatively minor problems during Wilson's first administration, it was necessarily expanded during his second administration by the exigencies of the First World War. This great emergency called for concerted collective action rather than "business as usual," as was at first assumed. Constitutional guaranties were ignored and the vestiges of *laissez faire* were sloughed off. Especially created wartime administrative officers and boards operated the railroads and controlled essential industries. Competition gave way to cooperation, and freedom of contract bowed before a governmental policy of price fixing for certain essential commodities and services. A regimented economic society, resulting from wartime Federal control, continued to function until after the signing of the Armistice.

The administrations of Harding and Coolidge represented a "return to normalcy" and an earlier political philosophy of "less government in business." Nevertheless, numerous states made some further progress toward enlightened social and industrial legislation. The "rugged individualism" of Herbert Hoover, continuing the Federal tradition of the two earlier Republican administrations, made a desperate last stand in the great economic depression of 1929 to 1932; it ended in overwhelming defeat at the polls in the presidential election of 1932.

26. Political Revolution in the New Deal. *a. General Scope.*—The first special session of Congress under President Franklin D. Roosevelt passed in short order the National Industrial Recovery Act, the Agricultural Adjustment Act, the Federal Securities Exchange Act, the Home Owners' Refinancing Act, and various other measures which widened the scope of the Federal Government and increased the power of the President to a degree unprecedented in peace times.

The war against depression was prosecuted as vigorously by President Roosevelt as the war against the Central Powers of Europe had been

conducted by President Wilson; its costs also ran into billions of dollars. Relief for the poor was advanced by the Federal Government to the several states. Public employment was created by such Federal agencies as the Public Works Administration and the Works Progress Administration. Provision for "the lost generation" of young people unable to find employment or to go to college was made through other Federal agencies such as the Civilian Conservation Corps and the National Youth Administration.

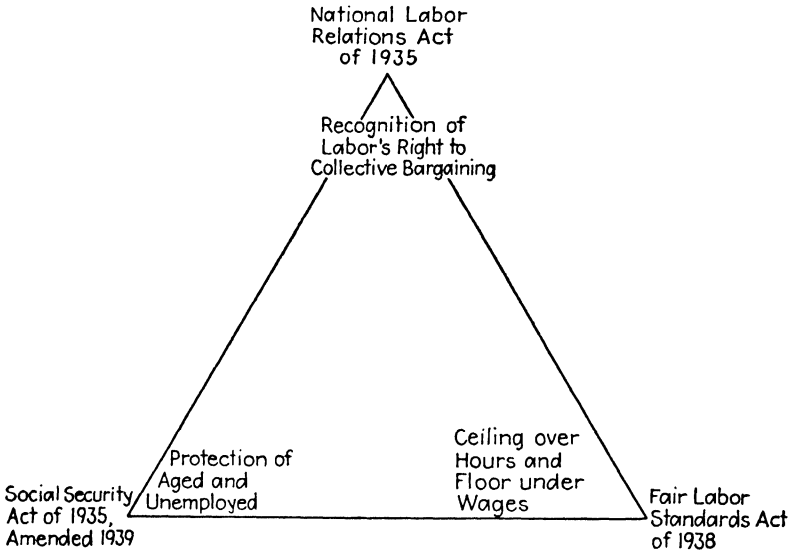


CHART 11.—Essentials of New Deal labor legislation.

b. National Industrial Recovery Act.—The National Industrial Recovery Act of 1933 invited business to clean house for itself by the formulation of various industrial codes. But the government held the whip hand by its power to license only those industries whose codes were satisfactory in their protection of labor and in their conservation of public interests. Moreover, the President could, and did, impose a blanket code on noncooperating or dilatory industries.

The great significance of this emergency legislation to students of labor problems is apparent. The right of labor to bargain collectively through representatives of their own choosing was embodied in the National Industrial Recovery Act. Employment, hours of work, conditions of labor, and even minimum wages for men, as well as for women, were brought under the control of the executive branch of the Federal Government. The objectives of the proposed child-labor amendment, so long delayed in ratification by the states, were suddenly realized in some of these "voluntary," cooperative industrial codes.

The National Recovery Administration was abruptly terminated by a decision of the United States Supreme Court[1] which declared the act to be unconstitutional, as it embodied an unwarranted delegation of power from the legislative to the executive department of the Federal Government. Then began a great political controversy between President Roosevelt and the Supreme Court, which was featured by an unsuccessful attempt to change by law the character of the Supreme Court, and which was terminated only by sufficient new appointments to recurring vacancies on the Supreme Court to insure a more liberal interpretation of New Deal legislation.

c. Fundamental Labor Laws.—Subsequent legislation embodied some features of the National Industrial Recovery Act. The Wagner Act of 1935, better known as the Labor Relations Act, reaffirmed the right of workers to organize and to bargain collectively through representatives of their own choosing. It created a new Federal body for the enforcement of that right. The Fair Labor Standards Act of 1938 sought to rebuild a ceiling over hours and a floor under wages; it also proscribed child labor. Both these acts were based on the interstate commerce power of Congress. The Federal Government finally succeeded in regulating intrastate industry on the theory that every large manufacturing enterprise found it necessary to import materials from and to export finished goods to other states than the one in which it operated.

The Social Security Act of 1935 provided unemployment compensation, old age benefits, and numerous other features. It was based on the taxing power of the Federal Government; it operated through the device of returning taxes and paying subsidies to those states which cooperated in such programs and maintained certain standards.

Each of these three acts will be treated in later and separate chapters. They are outlined together here as the central core of the labor program of the New Deal. They are pictured in Chart 11 on page 47.

Summary.—The evolution of modern capitalism during the transition from a local subsistence economy to a national exchange economy was featured by the philosophy of mercantilism, which advocated governmental regulation of commerce and industry. Mercantilism was succeeded toward the close of the eighteenth century by the philosophy of liberalism and the policy of *laissez faire* or let alone. More recently the pendulum has swung back again toward increased governmental regulation of industry. Functions of the state have expanded from the primary one of maintaining order to the secondary ones of controlling industry and providing social services.

Private property is the legal right to acquire, to hold, and to dispose of various kinds of economic wealth. It includes freedom of contract,

[1] *Schechter Poultry Corp. v. United States*, 295 U. S. 495, 1935.

which, in turn, implies economic freedom. Equality before the law, however, means little in the face of glaring economic inequalities. The institution of private property has been modified by economic changes and by social progress.

The United States is a federal government with a written constitution. The Federal Government possesses only those powers specifically delegated to it in the Federal Constitution. Of greatest significance for the control of industry and labor are the power to tax and the power to regulate interstate commerce.

The constitutions of individual states, like the Federal Constitution, have their own bills of rights, which guarantee their individual citizens life, liberty, property, and other civic rights. Each new labor law has to stand the test of constitutionality both by its own constitution and by the Federal Constitution. The police power of the state, as developed by judicial review, is its authority to pass laws which encroach on the constitutional guaranties of individual freedom, when the common safety, health, and welfare of the group necessitate such action.

Questions for Discussion

1. *a.* Distinguish between individualism and paternalism.
   b. Distinguish between mercantilism and liberalism.
2. *a.* Outline some of the increasing functions of government.
   b. Classify functions of government.
3. *a.* What do you understand by the institution of private property?
   b. Differentiate it from economic wealth.
4. *a.* What do you understand by the social concept of property?
   b. Show how the concept of property has changed.
   c. Illustrate some present critics of private property.
5. *a.* How does the Federal nature of our government affect labor problems?
   b. How does the constitutional nature of our government concern it?
6. *a.* Enumerate some of the chief constitutional guarantees.
   b. Show how they affect labor.
7. When does differentiation become discrimination and why?
8. Explain the nature and significance of the police power of the state.
9. Show the gradual centralization of governmental functions.
10. *a.* Outline some of the major advances in social legislation made under the New Deal of President Roosevelt.
    b. Explain the constitutional basis and the change in legal philosophy.

Topics for Investigation

1. Transition from mercantilism to liberalism.
2. Theories of private property.
3. Varied and changing concepts of property.
4. Judicial interpretation of the police power of the state.
5. National Industrial Recovery Act—purpose, provisions, results.
6. Philosophy of government under the Square Deal of Theodore Roosevelt, the New Freedom of Woodrow Wilson, and the New Deal of Franklin D. Roosevelt.

7. Expansion of governmental functions during the First and the Second World Wars.

8. Increase in governmental services during the great depression.

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CHAPTER IV

THE BACKGROUND IN POPULATION

IMMIGRATION AND LABOR SUPPLY

1. Increase in Population of the United States.—When national independence was achieved, the combined populations of the thirteen original states totaled about 3 millions. The 1940 census revealed over 131 million inhabitants within continental United States.

POPULATION OF THE UNITED STATES AND PERCENTAGE INCREASE BY DECADES

Year	Population	Percentage increase over previous census	Year	Population	Percentage increase over previous census
1790	3,929,214		1870	38,558,371	23
1800	5,308,483	30	1880	50,155,783	30
1810	7,239,881	37	1890	62,947,714	25
1820	9,638,453	33	1900	75,994,575	21
1830	12,866,020	34	1910	91,972,266	21
1840	17,069,453	33	1920	105,710,620	15
1850	23,191,876	36	1930	122,775,046	16
1860	31,443,321	35	1940	131,669,275	7

This great increase of population has been due both to foreign immigration and to native surplus of births over deaths. Immigration, which was formerly important, is now insignificant.

Our rapid increase in population was accompanied by territorial expansion to an area many times that of the original settlements. The Pacific Ocean was eventually reached and the frontier finally disappeared. The era of rapid growth of population and territory has ended. The United States has passed its national adolescence; it has arrived at social maturity.

During the first half of our national existence population increased rapidly and steadily by about one-third each intercensal period. The decade from 1860 to 1870 saw the first significant slowing down of this rapid and steady rate of increase, which was checked by the ravages of the War between the States. Although the rate of population increase was accelerated thereafter, it failed to reach its former speed. Then the intercensal rate of increase began to decline slowly but steadily from

30 per cent between 1870 and 1880 to 15 per cent between 1910 and 1920; this decade was featured by the First World War. The following intercensal period was one of relative peace and prosperity; nevertheless, the rate of population increase between 1920 and 1930 moved upward only 1 per cent to 16 per cent. Finally, in the decade from 1930 to 1940, a period of peace if not of prosperity, our rate of population increase fell suddenly and sharply to 7 per cent. In this single intercensal period, population increase declined to less than half its former rate.

Our increase in population from 1930 to 1940, although quantitatively the smallest in our entire history, was qualitatively significant as the first purely native increase in population due to a natural surplus of births over deaths. Whereas in some previous decades immigrants from Europe numbered several millions, between 1930 and 1940, for the first intercensal period in our entire history, the number of emigrants from the United States exceeded the number of immigrants to the United States. Our population increase of 9 millions from 1930 to 1940, therefore, was exclusively a natural and a native increase. In contrast, 19 per cent of the total population increase of 17 millions from 1920 to 1930 was attributable to immigration; even this ratio was small in comparison with others in previous decades of still heavier immigration.

2. Present Composition of Our Population.—The people of the United States are preponderantly Caucasian. The 1940 census reported that whites numbered 89.8 per cent of the total population; Negroes constituted 9.8 per cent; other colored races made up the remaining 0.4 per cent. Only 9.7 per cent of our total white population was reported in 1940 as foreign born, as contrasted with 12.7 per cent in 1930.

RACIAL DISTRIBUTION OF POPULATION IN 1940 AND RATE OF INCREASE OF EACH GROUP, 1930 TO 1940

	Number in 1940	Percentage increase from 1930 to 1940
All classes	131,669,275	7.2
Whites	118,214,870	7.2
Native whites	106,795,732	10.9
Foreign-born whites	11,419,138	−18.3
Negroes	12,865,518	8.2
Other races	588,887	− 1.4
Indians	333,969	0.5
Orientals	254,130	− 3.7
Chinese	77,504	3.4
Japanese	126,947	− 8.6
Filipino	45,563	0.8
Hindu	2,405	−23.2
Korean	1,711	− 8.0
Others	788	1.0

The majority of Negroes still live in the South. During the past generation, however, thousands of Negroes have migrated northward to the Middle Atlantic and North Central states. For the most part this migration has been from the country to the city and from agriculture to industry. Restrictions on immigration have resulted in the industrialization and urbanization of the Negro, who has taken the place formerly held by the unskilled worker from Europe.

The majority of Asiatics are to be found in the Pacific Coast states. Many of them are engaged in truck farming and fruit growing in the valleys of California.

There are over a million Mexicans in our great Southwest, which formerly was part of Mexico. Many of these Mexicans engage in cattle raising and are scattered on ranches throughout Texas and other border states. Some are concentrated in large cities, such as Los Angeles, where they are employed as unskilled laborers.

A comparable group in the opposite corner of the United States are the French Canadians; they are common in the lumber camps of Maine.

3. Immigration in Relation to Population Growth.—Past immigration to the United States cannot be construed as a net increase in our population, for large-scale immigration has been accompanied by a fall in the native-white birth rate. Indeed, it has been contended that the population of the United States would be almost as large as it now is by the natural increase of the descendants of the early white settlers, even if the United States had received no immigration from Europe during the past century. Although this position[1] is dubious, the opposite extreme of denying the influence of immigration on population growth is wrong.

4. Rates of Increase of Various Groups in our Population.—The varying rates of natural increase among the different races and nationalities within our country are as significant as the contrast between population growth by foreign immigration and by native increase. Sweeping generalizations have been made by demagogues ignorant of the facts or indifferent to them.

a. Colored Peoples.—There is the common stereotype of the *Indians* as a dying race, despite their increase in numbers as shown by recent census figures. Although their relative numerical importance in our large and growing population has declined, there are probably as many Indians today as there were a century ago. Indian cultures, however, are becoming extinct in competition with our pervasive industrial civilization. Moreover, considerable intermarriage has taken place, especially in such areas as Oklahoma. Hence, the Indian is less distinctive and less distinguishable now than formerly.

[1] Walker, Francis, "Discussions in Economics and Statistics."

Another common misconception is as dangerous as the first is sentimental. It views with apprehension the steady increase in our *Negro* population and the frequent mixture of white and colored people. Such alarmists envision the time when the rising tide of color will engulf the United States and other Anglo-Saxon areas throughout the world. The facts in the case, however, are that the Negroes in our population are not growing at a disproportionately rapid rate, in comparison with our white population or with total population. To be more specific, the rates of increase of the American Negro were 13.6 per cent from 1920 to 1930 and 8.2 per cent from 1930 to 1940. The rate of increase of our white population for these same intercensal periods were 15.7 per cent, and 7.2 per cent respectively. Meanwhile, the rates of increase of our total population were 16.1 per cent and 7.2 per cent, respectively.

Racial prejudice has created a yellow as well as a black peril within our borders, despite the facts that the immigration of *Asiatics* has been forbidden and that the number of Asiatics in our population was less in 1940 than in 1930. The largest and most hostile group of Asiatics has been the Japanese; this group showed a disproportionately great decline from 1930 to 1940 of 8.6 per cent, in comparison with a decline of 3.7 per cent for all Orientals and in contrast to an increase of 7.2 per cent for all Caucasians in our population.

b. Native and Foreign-born Whites.—It has frequently been contended that the native-white birth rate is falling, or is low, in comparison with that of European immigrants. For example, at the high tide of European immigration in 1910, within the densely peopled state of Massachusetts, the native birth rate was 14.8 per thousand, whereas that of the foreign born was 49.5 per thousand, or more than triple the native birth rate. At the same time and place there was far less discrepancy between the death rates of the native and foreign-born groups. Consequentially, it was felt by many apprehensive observers that the children of the more prolific immigrants from Southern Europe would replace within several generations the descendants of the Pilgrim Fathers. Some zealous advocates of Nordic superiority feared the possibility of race suicide among some of the "finest strains" of our old American stock.

Between 1910 and 1920, our white population of native parentage increased by only 18 per cent, whereas whites of foreign or mixed parentage increased by 19.7 per cent. But between 1920 and 1930, our white population of native parentage increased by 20 per cent, whereas the whites of foreign or mixed parentage increased by only 13 per cent.[1] Between 1930 and 1940, according to the U. S. Census for the latter year, our native-white population increased by 10.9 per cent, whereas the foreign-born whites in our population actually decreased by 18.3 per

[1] "Recent Social Trends," vol. 1, p. 556.

cent. With present restrictions on immigration there need be little fear of domination by the foreign born within the United States, even though the children and grandchildren of European immigrants constitute a large element in our native-born white population.

In some past periods and in certain particular places the birth rate among many foreign-born groups has been higher than that for contemporary and contiguous native-born whites. On the other hand, the death rate of these foreign-born groups has been higher than that for those native-white groups, although not proportionately so. Recent restrictions on immigration, however, have made this issue one of historic interest, rather than one of current importance.

5. Economic Aspects of Population Increase.—The economic aspects of this problem are as significant as its racial aspects. Population tends to increase more rapidly in the lower income groups than it does in the higher income brackets. The social pyramid of noncompeting economic groups will be explained in the subsequent discussion of wages in Chap. VII. It is sufficient at this point to observe that most immigrants came to this country as unskilled laborers, falling within the lower income groups, whose birth rates and death rates were higher, and whose standards and planes of living were lower than those of the more fortunate economic groups pictured at the apex of the social pyramid. The income status of many colored peoples has been lower than that of many white groups in our country. Hence the same economic factor influences their relative birth rates.

6. Racial Superiority and Inferiority.—There is little objective evidence or scientific proof of racial superiority or inferiority in general, even though certain groups excel in some particular things and are woefully deficient in others. Intelligence quotients have been worked out for individuals but not for races; even these are pointed more toward the measurement of scholastic aptitude than of ability to survive, which can be tested only by life experiences.

Even if it should be conceded that certain groups have contributed more toward civilization than have other groups, it must be remembered that culture is a cluster of social institutions; it constitutes our acquired social heritage and does not represent our inherent biological heredity.

7. Changes in Age Groups and Size of Family.—The composition of our population has changed with respect to its constituent age groups, as well as in regard to its component racial elements. As the nation has become older, and as the healing arts have improved, the median age of our population has risen from 16.7 years in 1820 to 28.9 years in 1940 or by over ten years; it has almost doubled during the past century. Even though the human life span has not been extended far or often beyond the scriptural limit of threescore years and ten, the life expectancy

rate has advanced markedly; more people are living more fully to the natural limit of the biological potentialities of the human race.

Although the birth rate has declined, the death rate has dropped even farther and faster. It is especially significant that our population has increased in spite of a declining birth rate. The result has been a decrease in the average size of the American family from 5.6 in 1850 to 4.1 in 1930 and to 3.8 in 1940.

AGE DISTRIBUTION OF POPULATION OF THE UNITED STATES[1]

Age groups	Percentage of total population	
	1940	1930
Under 20 years	34 5	38.8
20 to 44 years	39.0	38.3
45 to 64 years	19.7	17.4
65 years and over	6.8	5.4
20 to 64 years	58.7	55.7

[1] U. S. Census.

Our population today includes a greater portion of those within higher age groups than ever before. The possibility of a longer and richer life is a pleasant prospect to the sociologist, but it raises problems of social economics. There is the opportunity of both a longer period of education before the productive years and a longer period of leisure after retirement from gainful employment. There is also the necessity of reducing the speed and pressure of modern industry, which is especially hard on those in middle life; there is likewise the need of formulating programs of old age insurance for those of advancing years.

8. Geographical Distribution of Our Population. *a. Density of Population.*—As compared with Asia and Europe, the Americas are still sparsely peopled. Asia is said to have over a billion inhabitants and Europe about a half billion inhabitants; North and South America together have scarcely a quarter of a billion people. Although Europe is about the same size as the United States it has approximately four times as many inhabitants.

The density of population, *i.e.*, the average number of inhabitants per square mile, in this country is but a fraction of that in the more thickly settled countries of Europe, such as Belgium, Italy, Germany, or France. But density of population is as misleading as average length of life or average size of family. Although density of population is greater in Europe than the United States, some parts of Europe, such as northern Russia, are thinly peopled, and some parts of the United States, such as the triangle formed by Boston, Washington, and Chicago, are thickly

peopled. New York City, according to the 1940 census, had a population of over 8 million; and that entire metropolitan area had a population of almost 12 million. In this small region lived almost one-tenth of all the people of continental United States. On the other hand, huge areas of our great West were still sparsely peopled. The entire state of Nevada,

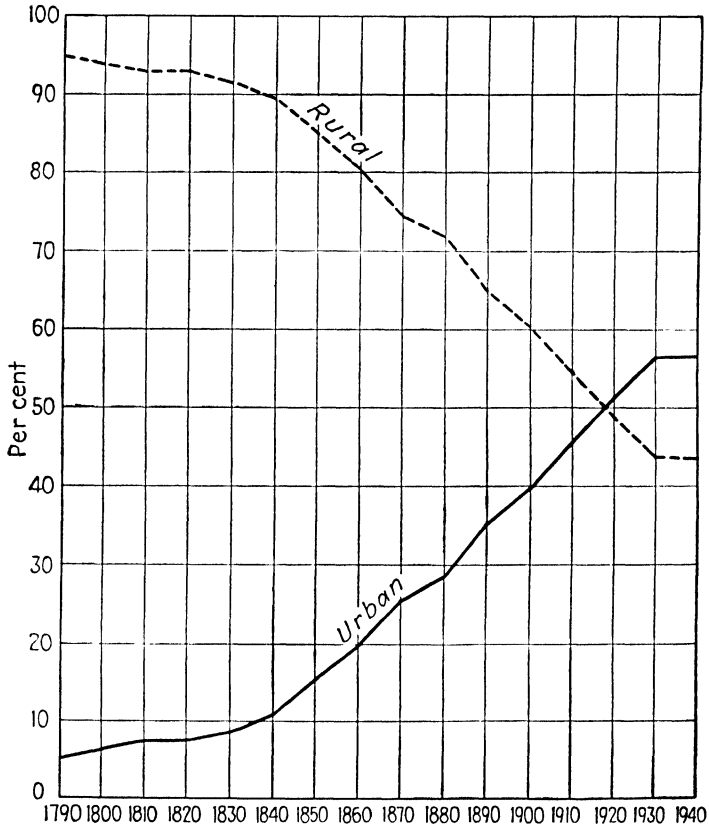


CHART 12.—Percentage distribution of urban and rural populations of the United States.

for example, had a total population of only 110,247 in 1940, or an average of only one person per square mile. Between these two extremes, density of population varied widely within the United States.

b. Urbanization and Industrialization.—During its early history America was chiefly agricultural; the rural community and the small village were typical. But the rapid growth of commerce and the later development of industry stimulated the growth of large cities and caused the urbanization of large portions of our population. At present, more than half our inhabitants live in cities of 2,500 or more people. The following table, illustrated by Chart 12, shows how the percentage distribution of our urban and rural population was gradually reversed.

URBAN AND RURAL POPULATION DISTRIBUTION
(In Percentages of Total Population)

Year	Urban	Rural	Year	Urban	Rural
1790	5.1	94.9	1870	25.7	74.3
1800	6 1	93 9	1880	28 2	71.8
1810	7.3	92 7	1890	35 1	64.9
1820	7.2	92.8	1900	39.7	60 3
1830	8.8	91.2	1910	45.7	54 3
1840	10.8	89.2	1920	51.2	48.8
1850	15.3	84.7	1930	56.2	43.8
1860	19.8	80.2	1940	56.5	43.5

Immigrants went into industry more than agriculture and therefore into the city rather than the country. They settled by the millions in the Northeastern and North Central states, where population was already congested by industrialization and urbanization. In some manufacturing and mining communities in this general region, the foreign born outnumbered the native born; in many cities, foreign born and native born of foreign parents combined far outnumbered native-born inhabitants of native parents.

New York City was the chief port of entrance for immigrants from Europe. Naturally, the great tides of immigration tended to converge in and about this metropolitan area. Millions of foreign-born citizens remained in this "Great Melting Pot of the Nations." Other millions of immigrants flowed out of New York in streams of various nationalities to neighboring centers of urbanization and industrialization, such as manufacturing towns of New England and mining communities of Pennsylvania. Still others moved more promptly to the various metropolitan areas strung along the Great Lakes, such as Cleveland, Detroit, and Chicago.

9. Population Movements.—As water seeks its own level, so population tends to flow from densely peopled countries to sparsely settled areas and from barren regions to richer and more fertile lands. If a given state of the arts of production and similar institutions protecting life and property are assumed, national prosperity is primarily a ratio of resources to people; hence the pressure of population from densely peopled regions, especially those whose natural resources are poor or exhausted, to the richer and less densely populated areas of the world.

Early migrations were movements of entire peoples from one place to another. Illustrations are the wanderings of nomadic tribes of Western Asia, whose pastoral life necessitated frequent migrations in search of better pasture, and the barbarian invasions which swept successively up the Danube River valley into the Roman Empire. This process

was slow and halting; it was marked by numerous conflicts and frequent periods of assimilation.

Although later migrations have been those of individuals and their families, the net result on population has sometimes been equally momentous. In the middle of the past century the deserted villages of Ireland gave mute testimony to foreign emigration, chiefly to America. In later years of that century, certain towns in southern Italy likewise sent a majority of their sons to the United States.

During the century between 1820, the first year for which reliable statistics are available, and the First World War, when immigration fell off, never to rise again to its former proportions, gross immigration into the United States amounted to over 30 million; this figure roughly corresponds to the total population of our country at the time of the Civil War. This striking comparison shows how important a role immigration has played in the making of the present population of the United States.

Although modern immigration has been peaceful, rather than warlike, it caused some international friction. The United States and some of the self-governing colonies of Great Britain have sought to protect their large but sparsely settled areas against emigrants from the more densely peopled countries of Europe and especially of Asia.

10. Waves of Immigration.—From 1820 to 1830, the annual number of immigrants doubled, increasing from less than 10,000 a year to over 20,000 a year. In the early forties the annual number of immigrants passed the hundred thousand mark. Although these numbers seem small in comparison with more recent ones, so was the population of the United States at that time. Hence, from the very start European immigration was relatively significant.

Important dates in the early history of immigration were 1846, the year of the failure of the potato crop in Ireland, and 1848, the year of revolutions in Germany and Central Europe. Both resulted in an increased immigration to the United States, until checked by industrial depression in the late fifties and the subsequent outbreak of the War between the States.

After the Civil War and the depression of 1873, the volume of immigration rose even higher than before, but it receded somewhat in the eighties and nineties, especially during and after depression years. With the return of prosperity at the turn of the century, immigration into the United States increased to unprecedented proportions. The annual number for the decade before 1914 was generally well over the million mark.

The outbreak of the First World War resulted in a precipitous decline in immigration to the United States, as the young men of various Euro-

pean countries were called to the colors. But immediately after the cessation of hostilities and the demobilization of troops, immigration to America again jumped. It might soon have reached or surpassed former levels, had it not been checked by drastic restrictions.

During the great economic depress on of 1929 to 1933, immigration to the United States fell rapidly and emigration from the United States increased steadily. From 1930 to 1940, emigration from the United States actually surpassed immigration to it; this was unprecedented in any previous intercensal decade.

Economic and political conditions in the United States and Europe have influenced immigration into this country and emigration from Europe. Our periods of depression and our wars have been characterized by declines in immigration. Conversely, European depressions, wars, and persecutions have stimulated emigration to the United States.

11. Periods of Immigration.—The history of immigration may be divided into different periods according to its volume and sources.

First was the colonial period. The early settlers in America were colonists and not immigrants. They had migrated to possessions of their own mother country. During and after the American Revolution many Loyalists or Tories left the United States for Canada. On the other hand, many more Britons continued to come to this independent English-speaking country. The year 1776 marked no such turning point in the social and economic history of America as it did in its political history. The War of 1812 is a more accurate and equally convenient date with which to mark the beginning of American economic independence.

The second period of American immigration extended from the War of 1812 to the Civil War. It included such dates as 1846 and 1848. Immigrants were chiefly British, Irish, German, and Scandinavian.

The third period of immigration extended from the Civil War to 1882, which date was important for several reasons. Immigration figures for that year reached a new maximum. Again, the year 1882 dated qualitative as well as quantitative changes in immigration. Thereafter, German and Scandinavian immigration almost ceased, whereas immigration from Russia, Italy, and the former Kingdom of Austria-Hungary became of paramount importance. Finally, the first Chinese Exclusion Act and the first important Federal law for the regulation of European immigration were passed in 1882.

The fourth period of immigration extended from 1882 to the outbreak of the First World War. It represented large-scale immigration from Southeastern Europe. Nevertheless, it was a period of regulated immigration instead of one of free immigration.

The fifth period of immigration extended from the First World War to the economic crisis of 1929. It was one of restriction rather than

of regulation. It was characterized by a great reduction of immigration, due to the First World War and to the postwar restrictions imposed by the laws of 1921 and 1924 and the national-origins plan of 1928.

The economic depression of 1929 to 1933 marked the sixth period which can be characterized as one of cessation, rather than one of regulation or restriction of immigration. Economic conditions in the United States were so bad that many European immigrants decided to return to their native lands. For the first time in our history, annual emigration figures exceeded those of immigration in 1932 and 1933. But with economic recovery in the United States and the spread of Nazism through central Europe, thousands of Jewish refugees sought our shores. The outbreak of the Second World War terminated this possibility and ended this period.

12. Early Immigrants to America.—In the making of Americans, English colonists played a preeminent part. Before the Revolutionary War and for several generations thereafter, British settlers led in numbers and in relative proportions. These included not only the English colonists, but also the Scotch-Irish, who came somewhat later and pushed the American frontier westward across the Allegheny Mountains.

There was a considerable sprinkling of other nationalities, especially in the middle colonies. These included Swedes, Dutch, French Huguenots, and Palatinate Germans. At one time it was feared that the enormous immigration of Germans into Pennsylvania would drive a wedge through the English colonies at the same time that they were being closed in upon by the French from the North, the West, and the South.

Although English gentry were abundantly represented among the American colonists, the lower classes of English society also were present in large numbers. Indentured servants, convicts, and victims of London kidnapers were sent to America. Dr. Samuel Johnson termed Americans "a race of convicts" who "ought to be content with anything we allow them short of hanging." The subsequent history of the American people has made ridiculous this caustic comment of Dr. Johnson, but it should make Americans of today hesitate about heaping similar invectives upon the heads of our more recent arrivals.

The Irish, Welsh, and Scotch, as well as the English, migrated to America in large numbers during the early decades of the eighteenth century. In the generation before the Civil War, Ireland occupied a unique position, for Irish immigrants made up from one-third to two-fifths of our total immigration. The population of Ireland during these years was reduced by emigration and famine to one-half its original numbers.

A second wave of German immigrants came to America during the middle of the last century. The total volume of German immigration

approximated five million. It was concentrated chiefly in certain communities of Pennsylvania, Missouri, Illinois, and Wisconsin.

Scandinavian immigration also played an important part in our national life. The Norse were probably the first white men to see America. The Swedes were among the first colonists of the middle states. A later and larger wave of Scandinavian immigration came to America in the middle of the eighteenth century and moved westward. At one time there were over one million people in the United States who had been born in Norway, Sweden, or Denmark. The Scandinavian immigrants settled chiefly in the Northwest, in such states as Minnesota, Wisconsin, Iowa, and the Dakotas.

Contrasts in the social heredities of the Germans, Irish, and Scandinavians, whose language or religion differed from that of most Americans of that period, created some resentment and aroused considerable opposition from native American groups; but the newcomers and their strange customs were gradually absorbed in the composite culture stream of the United States.

13. Changes in Sources of Our Immigration.—The decided shift in the sources of American immigration from the Civil War to the First World War can be seen in the following table. It shows that percentages of immigration from northwestern and southeastern countries of Europe were reversed.

PERCENTAGE OF TOTAL IMMIGRATION COMING FROM SPECIFIED COUNTRIES[1]
(By Decades from 1861 to 1910)

Country	Years				
	1861 to 1870	1871 to 1880	1881 to 1890	1891 to 1900	1901 to 1910
Austria-Hungary	0.33	2.6	6.7	16	24.4
German Empire	35.00	25.5	28.0	14	3.9
Italy, Sicily, Sardinia	0.51	2.0	5.9	18	23.3
Russian Empire, Finland	0.2	1.9	4.4	14	18.2
United Kingdom	38.0				
England		15.6	12.0	6	4.4
Ireland		15.5	12.0	10	3.9

[1] FAIRCHILD, H. P., "Immigration," p. 135.

A line drawn diagonally across Europe separates roughly two different racial and cultural areas, constituting the divergent sources of our earlier and later immigrants. The northwestern area includes chiefly the Nordic groups of Teutons and Anglo-Saxons, and the southeastern area embraces mostly the Mediterranean and Danubian groups. With the notable exception of the Irish, early immigrants from northwestern Europe were

mainly Protestant, whereas later immigrants from southeastern Europe were mostly Catholic. Again, illiteracy was lower in the older than in the later groups. Finally, more political progress toward self-government has been made in the Anglo-Saxon countries than in the Danubian areas.

As indicated previously, scientific evidence of racial superiority and inferiority is lacking. Although the attainments of some groups have been greater than those of other less fortunate ones, such contrasts in achievements may be due more to differences in physical environment, in social environment, or in social heredity, than to biologic differences in physical heredity. But whether inferior or superior, later immigrants from Southeastern Europe were different from early immigrants from Northwestern Europe, whose background was more similar to that of the early settlers of this country. Hence the later immigrants to the United States were more difficult to assimilate than the earlier ones had been. It is also true, however, that the economic life of the United States in the latter half of the nineteenth century was different from that in the earlier decades.

It has sometimes been said that the primary causes of early immigration to America were religious persecution and political oppression, whereas causes of our later immigration were chiefly economic. Although this sweeping generalization contains an element of truth, all these causal factors have operated in all periods of American development.

14. Later Immigrants to the United States.—Although often grouped together as Mediterraneans and Danubians, to distinguish them from Nordics, the Southeastern Europe immigrants included such divergent racial groups as Latins, Magyars, and Slavs. Although most of them were Christians, the number of Jews rose absolutely and relatively. The Christian element was preponderantly Catholic, rather than Protestant; it was split between the Roman and Greek churches.

European nations which furnished the greatest number of immigrants to the United States in the generation before the First World War were Italy, Austria-Hungary, and Russia. Italy was sending annually to the United States between a quarter and a half million immigrants. Almost an entire village was sometimes transplanted. The greater portion of this Italian immigration was Sicilian or south Italian. The former dual monarchy of Austria-Hungary was a polyglot empire, which the First World War split apart by the principle of self-determination. This former Kingdom of Austria-Hungary included numerous racial and national groups, most of whom contributed conspicuously to American immigration between 1882 and 1914. Several million Slavs immigrated to the United States before the imposition of the present restrictions. Some came from Russia and the Balkans, but most of

them came from the former Kingdom of Austria-Hungary. These Slavic immigrants included Poles, Bohemians, Slovaks, Slovenes, Croatians, Russians, Bulgarians, Serbians, and numerous other divergent groups.

Later immigrants to the United States also included thousands of Hungarians or Magyars. Of similar Mongol origin were the Finns, some of whom were driven to America by the despotism of imperial Russia. Most Russian immigrants to the United States, however, were Hebrews, who migrated because of religious persecution at home and economic opportunities in the United States. Before the First World War, hundreds of thousands of Russian and Polish Jews found in America the "Promised Land" of peace and plenty. Before the Second World War the exodus of Jews was from Germany and Nazi-controlled Central Europe.

Immigration to the United States from the Balkans included chiefly Greeks, Rumanians, Bulgarians, and Serbians. Finally, Turks, Syrians, and Armenians began coming to our shores. Thus, immigration to America had spread not only from Northwestern to Southeastern Europe, but also from Southeastern Europe to Western Asia.

15. Occupational Distribution of Later Immigrants.—Most immigrants from Southeastern Europe settled in our congested industrial and commercial centers. Each large city still has its "little Italy" and its "little Hungary." In particular, Jewish immigrants have shown a strong tendency to concentrate in cities, of which the most conspicuous illustration is the metropolitan area of New York. They have been especially prevalent in commercial and mercantile enterprises. Sporadic attempts have been made to settle Hebrew immigrants on the land in agricultural pursuits, but these efforts have met with only modest success.

The industrial distribution of other immigrant groups is equally interesting. For example, Italians have gone in great numbers into construction work and the building trades, while Hungarians and many Slavic groups have poured into coal-mining towns of Pennsylvania. Some occupations are still stigmatized as "dago jobs" and "hunkie labor." But any sweeping generalization is false beyond the general observation that most immigrants have gone into the ranks of unskilled labor. As the United States became more industrial and less agricultural, later immigrants went naturally into industry as the earlier immigrants had gone necessarily into agriculture.

16. Industrial Development and Immigration.—The industrial development of the United States from the Civil War to the First World War was accompanied by large and increasing immigration from Europe. Mechanization and specialization created a demand for unskilled labor in America; it was met by this European immigration. But the reverse

relationship also was true, *viz.*, that immigration made possible greater utilization of machinery and more division of labor.

Before the First World War, European immigration largely supplied the great labor reserve for the basic industries of the United States. This was not an unmixed blessing, for in times of economic depression a large proportion of immigrants have been forced out of work. This lowest paid group often suffered most from unemployment. Large immigrant labor reserves also encouraged seasonal occupations and a temporary economic expansion which often accelerated the business cycle.

17. Economic Effects of Immigration.—Unskilled immigrant labor gradually permeated all our basic industries, and the native American worker was displaced by more recent arrivals from Europe. In mining and numerous other occupations a gradual change took place in the nationality of the workers employed, as one racial group gave way to another, and then to still another. Newly arrived immigrants with still lower standards of living than their predecessors tended to displace them in particular industries. Thus a kind of Gresham's law seems to have operated with immigrant labor. Just as cheap money tends to drive better money out of circulation, so cheap labor tends to displace labor with a higher standard of living. This industrial competition between the immigrant and the native worker and between the older immigrant and the newer immigrant was very evident.

The problem of low wages and low planes of living was most acute among immigrant groups from Southern Europe. Because of their low standards of living they could accept a wage which was higher than that of their native land, but which was too small to maintain an American family in decency. This was reflected in miserable tenements, housing congestion, infant mortality, and child labor.

Working conditions of the immigrants were on a plane with their living conditions. Not only would they accept a wage which was regarded by American workers as woefully inadequate, but also they would tolerate unfavorable conditions of employment. Extreme ignorance, stolid indifference, or stark necessity made the immigrant worker minimize such hazards of modern industry as dangerous trades and unhealthy working conditions.

Differences in race, religion, and language made it difficult for later immigrants from Southeastern Europe to develop effective collective-bargaining organizations. They were, therefore, susceptible of industrial exploitation and used to break down the collective bargaining of organized groups of American workers.

Professor Fairchild[1] maintained that the peak of real wages for unskilled workers in the United States was reached about 1890 or 1892,

[1] FAIRCHILD, H. P., "Immigration."

after which it receded until the First World War. He further contended that the enormous European immigration to America during this period was one factor in this decline of the real wages of our unskilled labor.

The wage competition of the immigrant was felt most keenly within the ranks of unskilled labor. This depression of wages was accomplished in two ways: first, by the economic fact that an increase in the relative supply of unskilled labor due to immigration pushed down its value, and, second, by the social fact that low standards of living and low wages were a part of the traditions of many immigrant groups.

Immigration is a movement of population from low-standard areas to high-standard areas. The Malthusian tendency soon eliminates any temporary relief afforded by emigration in the old countries, but immigration may depress standards of living in the new country. Hence it has been contended that immigration has reduced real wages and planes of living of unskilled labor in the United States without appreciably relieving pressure of population at home.

It does not follow, however, that immigration has reduced the real wages and planes of living of all economic groups within the United States. It has been alleged that the American worker has been forced out of the unskilled labor group, in which this competition existed, into a higher economic group. He has sometimes been kicked upstairs, rather than downstairs.

Economists are not agreed as to to what extent this forcing-up process has taken place, and many are inclined to believe that immigration has reduced not merely the wages of unskilled labor, but also the wages of labor in general. Although planes of living may not have declined absolutely, they may not be so high today as they would have been if European immigration had been restricted.

The pressure of immigration on standards of living has been reflected also in the lowered birth rate of native-born Americans. In a choice between customary standards of living and size of family, the American worker has generally preferred to maintain the former, even at the expense of the latter.

18. Social Effects of European Immigration.—America has been the great melting pot of different races and civilizations. This infiltration of different social heredities should be beneficial, for provincialism should decrease as we become the heir to the cultures of the world. A word of caution, however, is necessary. If immigration were unrestricted, the United States might become heir to the poorer rather than to the better social heredities of Europe. Moreover, if the process were too rapid, America might become Europeanized rather than the immigrant Americanized.

True Americanism does not require the possession of Mayflower ancestry, but it does necessitate the acquisition of certain civic and social ideals which we are pleased to term "American." The grafting of the best of America's social heredity on the new folk from Europe cannot be done by our characteristically large-scale methods. However, the public schools of our large cities have done a wonderful work among the children of our immigrants. But sometimes the transition was so rapid and under such unfortunate social conditions that the second generation failed to acquire the best traditions of the new American civilization, although it easily sloughed off the restraints of Old World culture and, indeed, of parental authority.

Immigrants often resisted actively or passively the process of Americanization. Assimilation was difficult because of the tendency of immigrant groups to huddle together with others of the same nationality in congested sections of our large industrial cities, where their miserable living conditions threatened American standards of living.

In addition to its effects on standards of living, immigration has reflected itself in a higher rate of illiteracy and in a greater proportion of social debtors. Illiteracy has been higher among both European immigrants and American Negroes than among most native-white groups. In poverty and dependency rates, also, the two former groups have been decidedly higher than the latter.

The alleged criminality of the immigrant has been refuted by a refinement of such statistics. The criminal rate of immigrant males within the so-called "criminal ages" has not been in excess of that of the total male population between the same ages. The children of our immigrants, however, display a proportion of criminality in excess of that in the general population of comparable age. These findings indicate that the criminal menace lies in the slum environment of cities, rather than in the heredity of immigrants.

There have been about three times as many men as women among our recent immigrants, most of whom have come to America in response to the demand for unskilled labor in industry. Any great numerical disproportion between the sexes is unfortunate. The presence of male lodgers and the existence of housing congestion have made difficult a wholesome family life among our immigrants.

19. Points of View toward Immigration.—Several points of view toward immigration have existed. Each reflected chiefly one's vested interests or social background, rather than scientific objectivity. In the first place, there was great difference of opinion as to the relative desirability of different groups of immigrants. These divergent points of view often reflected merely the biases of different individuals, rather than a statistical measurement of the relative contribution of different immigrant

groups to America's welfare or to America's maladjustments. Thus the older American immigrants or their descendants sometimes spoke disparagingly of more recent arrivals to the United States. Students of social science, however, know that such sweeping indictments are often false or unwarranted. Again, democracy itself is threatened as much by the snobbishness of native groups as by the clannishness of immigrant groups.

In the second place, there has been considerable diversity of opinion as to the desirability of any large immigration, irrespective of its racial composition. Organized labor has consistently opposed the competition of European immigrants with our native workers. Therefore, trade unionists attempted to limit immigration into the United States. On the other hand, capitalists and large employers of labor sought to facilitate European immigration into this country, in order to provide a large labor reserve of tractable workers.

In the third place, there has been what is known as the "sentimental" point of view, which regards America as the haven of refuge for all oppressed individuals. The limitation of immigration has been viewed as inconsistent with an assumed world mission of America. The student of social science should not accept the vested-interest argument of either labor or capital; nor can he accept naïve idealism in lieu of a sober consideration of the effects of unrestricted immigration.

20. Regulation of Immigration.—Popular agitation for the regulation of immigration went as far back as the "Native American" and "Know Nothing" parties which existed even before the War between the States. But the first important law for the regulation of immigration was not passed until 1875. It provided only for the exclusion of criminals and immoral women.

The first comprehensive law for the general regulation of immigration was passed in 1882. Hence this date serves as a convenient point to distinguish between the period of free immigration and that of regulated immigration, as well as to separate early immigration from Northwestern Europe from later immigration from Southeastern Europe.

The act of 1882 was followed by several later statutes designed to exclude foreign contract labor. Although some of this legislation concerning immigration incorporated restriction rather than mere regulation, it may be said that the chief aim of legislation from the Civil War to the First World War was that of regulation instead of restriction of immigration.

Only the following groups were actually excluded: contract labor, anarchists, immoral women, criminals (except for political offenses not recognized by the laws of the United States), paupers and those likely to become public charges, mental defectives, and those with infectious diseases such as trachoma and tuberculosis.

21. Change from Encouragement to Restriction of Immigration.—An act of 1864 which encouraged immigration was repealed in 1868; this date marks the beginning of a new negative attitude toward immigration. Before its repeal individual employers and organized associations were engaged in recruiting European workers for immigration to the United States.

Inducement of immigration was positively forbidden by a statute commonly known as the Contract Labor Law of 1885. It forbade assistance to immigrants coming here under contract to work as unskilled laborers. This piece of legislation resulted from efforts of the Knights of Labor and other American labor organizations.

Steamship companies had formerly encouraged immigration because of the large profits of steerage transportation. They were compelled to restrict their wholesale solicitation of prospective immigrants to the United States. They were ultimately required to return at their own expense those immigrants who failed to pass admission tests at Ellis Island.

22. Early Devices for Restriction of Immigration.—The period of the First World War marked the transition from a period of regulated immigration to one of restricted immigration, just as the law of 1882 dated the change from an even earlier period of free immigration to one of regulated immigration. Public opinion in the United States gradually came to demand more than the mere regulation of immigration. Labor organizations in particular began to agitate for the restriction of immigration.

a. Head Tax.—The head tax, as originally imposed in 1882, was a nominal one of only fifty cents, but it was gradually increased; in 1917 it was raised to $8. But even the increased head tax came to be regarded as inadequate, and other proposals were made for the restriction of immigration.

b. Literacy Test.—The literacy test required that each applicant for admission to this country be able to read and write some language, not necessarily English. Such a bill had passed Congress on several occasions, but it had been vetoed successively by Presidents Cleveland, Taft, and Wilson. Although President Wilson had vetoed a bill restricting immigration by the literacy test in 1915, and again in 1917, such a law was finally passed over his veto in 1917.

c. Arguments Concerning Literacy Test.—The literacy test has been defended both as a measure of regulation and as one of restriction. Not only would it decrease the number of immigrants, but also it would assure a better type of immigrant by the elimination of illiterates. On the other hand, critics of the literacy test, as a method of regulating immigration, point out in reply that the ability to read and write does not necessarily imply good citizenship. It is an accurate measure neither of individual character nor of biologic fitness.

Proponents of the literacy test answer in rebuttal that it is easy of application. Even if not the best method of selection, it is one of the most practical. Again, many advocates are more interested in the quantitative aspects of immigration than in its qualitative aspects. A reduction of numbers, even more than an improvement of quality, has been their chief desire. The aim of such legislation has been the restriction, rather than the regulation, of immigration.

23. Quota Restrictions.—Immigration from Europe almost ceased during the First World War, but with the conclusion of peace that prospect reappeared. Enormous numbers of emigrants from all lands sought to come to the prosperous United States to forget the ravages of war and to escape the burdens of taxation. The literacy test seemed inadequate to keep out this postwar tide of immigration which threatened our country. It was felt that immigration should be restricted still further. Indeed, it was proposed in Congress that all immigration be suspended for a year or two. A compromise was reached in quota restrictions.

a. Law of 1921.—This permitted European immigration, but restricted its amount. The annual immigration of each nationality was limited to 3 per cent of the number of foreign-born residents of that nationality living within the United States, as revealed by the census of 1910. Although President Wilson had refused to sign such a bill, President Harding did so shortly after his inauguration.

Because of this new law, which rigidly restricted immigration, the number of immigrants fell from 805,228 in 1921 to 309,556 in 1922. Its effect was to check immediately the threatened tide of emigration from war-stricken Europe to the United States. Although the law of 1921 was passed for the duration of only one year, it was subsequently extended for two more years, *i.e.*, until June 30, 1924. Meanwhile immigration figures had again increased. Consequently, no disposition was shown to let down the immigration bars which had been erected, but rather to raise them to even higher levels.

b. Law of 1924.—Immigration was further restricted by reducing the quotas from 3 to 2 per cent. Moreover, it was provided that these quotas should be based on the census of 1890, instead of that of 1910. The new plan favored the Nordic countries of Europe rather than the Mediterranean lands. If the quotas had continued to be based on the 1910 census, the reverse would have been the case.

The immigration restrictions of 1924 reduced the amount of immigration and radically changed its character. Only 160,000 to 170,000 new alien immigrants were permitted to come to this country annually from Europe. Of this number the great majority were from Northwestern Europe instead of Southeastern Europe, as had previously been the case. Moreover, European immigration lost its prior position of primary impor-

tance, which was taken by immigration of native-born citizens of the other Americas, for they were not included in the quota restrictions. In the years immediately following 1924, there was a decided relative increase and a slight absolute increase in our immigration from other countries of the Western Hemisphere, chiefly Canada and Mexico. In the fiscal year ending June 30, 1927, for example, 335,175 immigrant aliens were admitted to this country, but only one-third of them were European "quota" immigrants.

Finally, the immigration law of 1924 provided that "no alien ineligible to citizenship shall be admitted to the United States." This clause is important, because the naturalization law states that its provisions "shall apply to aliens being free white persons and to aliens of African nationality and to persons of African descent." In other words, only Caucasians and Negroes are eligible to citizenship and hence to immigration. It is hoped that Mongolians and other Asiatics may be excluded under some such general provision, rather than, as at present, under specific Chinese and Japanese exclusion acts.

c. National-origins Plan.—It was proposed that the Act of 1924 should remain in effect for only three years, *i.e.*, until July 1, 1927. In the meantime a thorough study was to be made of the people of the United States in order to determine our "national origins" for the purpose of fixing immigration quotas. The Secretaries of Commerce, Labor, and State, assisted by the Census Bureau, were to cooperate in this study of national origins and to report to the President, who was to announce the new quotas on July 1, 1927. Such a study was made, but the United States Senate was not then satisfied with the proposed quotas. Accordingly, the act of 1924 was continued until 1929, when the new national-origins plan went into effect.

The national-origins plan of 1929 differed little from the quota law of 1924. It provided that:

> . . . the annual quota of any nationality for the fiscal year beginning July 1, 1927, and for each fiscal year thereafter, shall be a number which bears the same ratio to 150,000 as the number of inhabitants in continental United States in 1920 having that national origin bears to the number of inhabitants in continental United States in 1920, but the minimum quota of any nationality shall be 100.

Under this law, an annual maximum of 153,774 European quota immigrants has been admissible into the United States. Of this number 83,574, or over half, must have come from Great Britain and Ireland. Under these quotas, like those of 1924, Northern and Western Europe has furnished 84 per cent; Southern and Eastern Europe, 16 per cent of all European quota immigrants. The immigration restriction continued to apply merely to European quotas. Total immigration figures for 1929

and 1930 ran about twice the specified limit. In other words, an equal number of quota-exempt immigrants came to the United States from Canada, Mexico, and other countries of North and South America.

24. Reduction in Immigration.—The national-origins plan had scarcely been put into effect when the economic depression of 1929 to 1933 set in. As the volume of unemployment in this country rose by the millions, it was felt that the total exclusion of European immigrants was necessary to protect the jobs of American workers. This drastic action, however, was unnecessary, because the combined effect of legal restriction and economic depression was that the number of immigrants fell from 241,700 in 1930 to 97,139 in 1931, 35,576 in 1932 and 23,068 in 1933. This last figure

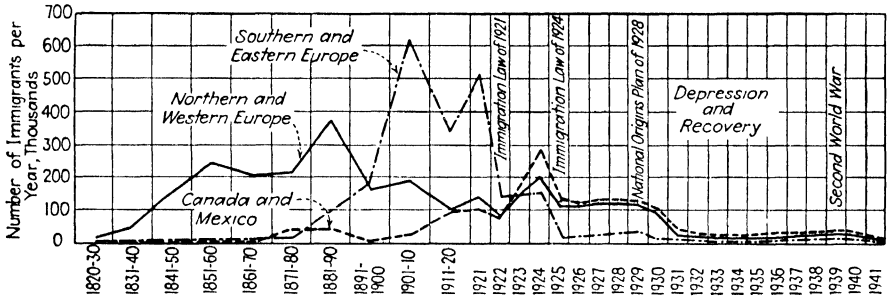


CHART 13.—Changes in volume and sources of immigration.

constituted the smallest number of immigrants admitted to the United States since 1831, over a century earlier.

Meanwhile many European immigrants in the United States, unable to find work in the land of their adoption, decided to return to the countries of their birth. As has been stated, the general problem changed in character from one of immigration to one of emigration. Emigrants from the United States exceeded immigrants to it by 112,786 in 1932 and by 93,074 in 1933.

During the years of recovery in the middle thirties, the number of immigrants increased from the low level of 1933 to a new high level of 82,998 in 1939, which, however, was still far less than the number that could be admitted under the national-origins plan. The outbreak of the Second World War was followed by a decline in number of immigrants to 70,756 in 1940 and to 51,776 in 1941.

Many of the immigrants coming from Europe to the United States between 1933 and 1939 were religious and political refugees from Central Europe. The Nazi persecution of the Jews was especially vicious. Those who managed to escape the fury of Hitler were confronted by immigration restrictions in the United States and other countries. Although all European immigration was below the grand total permitted,

the quotas of certain particular countries, where the pressure was strongest and the need greatest, were frequently filled for several years in advance.

25. Asiatic Immigration and Its Exclusion.—The immigration of Chinese began with the discovery of gold in California in 1849. They threatened to immigrate in such large numbers that Congress passed the Chinese Exclusion Acts of 1882, 1884, and 1888. The immigration of Chinese of the laboring classes was completely forbidden. Our colonial possessions in the Pacific Ocean, however, have a large proportion of Mongolians, some of whom have smuggled themselves into continental United States.

Although the Japanese did not begin to cross to America until after the Chinese, the former now slightly exceed the latter. The Japanese have concentrated in the agricultural valleys of California, where they specialized in the raising of fruits and vegetables. The Californians became apprehensive about the increased number of Japanese and their increased land holdings. State laws were passed which the Japanese government protested as discriminatory.

For many years there was a "gentlemen's agreement" between the United States and Japan for the limitation of Japanese immigration. In 1924, however, the American Congress passed a Japanese Exclusion Act similar to the Chinese Exclusion Act. The Japanese objected to being treated differently from any other friendly nation, and the desired objective could have been obtained in a more diplomatic fashion. The number of Japanese eligible for immigration under the quota acts was very small.

The economic and social problems of Asiatic immigration are more acute than those of European immigration. The economic threat of low wages and low standards of living is more menacing. The social problem is still more serious, because the Mongolian is difficult to assimilate. If Asiatic immigrants were not excluded, America would be confronted with a racial problem in the West somewhat similar to the Negro problem of the South.

26. Negro an Important Element in Our Labor Supply.—Negro immigration to America took place during colonial days. It was compulsory, because the Negroes were brought over as slaves. That they are now here in the United States is due to no action of their own, which should be remembered by the descendants of the early white settlers. Moreover, the freed slaves were turned loose without land or capital and suddenly compelled to adjust themselves from a system of forced labor to one of freedom of contract.

Nearly all Negroes in the United States formerly lived south of the Mason and Dixon line. Indeed, most of them resided within the "Black

Belt," which is a broad agricultural plain extending from Virginia to Texas. The states of Mississippi and South Carolina, as well as many counties in other Southern states, still have more Negroes than Caucasians.

The South was primarily agricultural, and farm labor was supplied principally by the Negro, just as the industrial states of the North and East relied on European immigration to supply most of their unskilled labor for factories and mines. In some sections of the South a survival of the old plantation system long existed. The Negro was kept in debt to his landlord and the plantation store. A contract might be signed which held him to his job, for colored fugitives and vagrants were severely punished by law. Peonage differs from slavery merely in the fact that the bonds of the former system are those of chronic indebtedness.

During the past few decades a tremendous northward migration of Negroes has taken place. They have gone from their former agricultural environment of the South into the congested industrial communities of the North, taking their places beside the European immigrants as an important element in the supply of unskilled labor. This movement assumed large proportions during the First World War, when our expanded industries were faced with a labor shortage created by the curtailment of European immigration. The postwar restrictions on European immigration made the industrial status of the American Negro permanent. He became an even more important factor in the labor market with the national defense program of the Second World War.

American experience has indicated that Negro labor can be employed as successfully in industry as in agriculture. The Negro proved himself to be as dependable an industrial worker as the European immigrant. He seemed to possess, or to be acquiring, those habits of steady industry and thrift which numerous immigrant groups have displayed.

The economic problem of the Negro centers about his living standard and his industrial efficiency. Both humanitarian aims and selfish interests should prompt white workers to encourage the Negro to raise his standards of living, rather than to view such aspirations with suspicion. Helpful cooperation must replace irritating friction and open hostility. Racial amalgamation is sought by few intelligent leaders of either group. Friendly coexistence, however, is both desirable and possible.

The Negro, like the immigrant of a generation ago, is now the important factor in the unskilled labor groups of all our basic industries. There is the same industrial competition of low standards of living with higher ones and the same depressing effect on the wages of the native-white workers. There is similar discrimination between white and colored workers as to wages and working conditions. Like most other unskilled groups, Negro labor has not been well organized and has profited little by

collective bargaining. The colored worker has often been ignorant of, or indifferent to, labor organizations; he has sometimes been excluded from them by racial prejudice.

Wartime and postwar prosperity opened new industrial opportunities to the Negro, but the great economic depression of 1929 to 1933 affected him more quickly and more drastically than most other classes, even among unskilled-labor groups. Thousands of Negroes in industrial communities of the North suffered severely from unemployment and poverty. Negroes claimed that they were discriminated against in the general layoff of employees during the depression and by the substitution of white for colored help. White residents, in turn, complained that an unduly large portion of relief funds went to the support of colored families.

Summary.—During the past century, the United States experienced a great increase in population and territory. In 1790, our population was less than 4 million, but in 1940, it was over 131 million. Our rate of population increase, however, has been declining. Both the birth rate and the death rate have decreased. The American family has become smaller. The average age of our population has been raised by the conservation of human life. Industrialization has been accompanied by urbanization of population.

European immigration to the United States during the century from 1820 to the outbreak of the First World War amounted to over 30 millions. But this large volume of immigration cannot be viewed as a net increase to our population, because of its effects on the native birth rate. In the years to come, our population will increase slowly by a natural surplus of births over deaths in our native population, rather than by wholesale immigration as in the past.

At present, about nine-tenths of our population are Caucasian, of whom about nine-tenths are native born. The foreign born and those of foreign parentage are to be found chiefly in the North Atlantic and North Central industrial states.

Immigration to the United States increased from a few thousand annually at the beginning of the last century to a million a year at the opening of the present century. The development was from small-scale to large-scale immigration. Fluctuation in the volume of immigration has been due to wars and to alternating conditions of prosperity and depression.

The early sources of our European immigration were Great Britain and Ireland; German and Scandinavian contributions also were important. Toward the close of the past century, however, the character of our immigration changed. Its European sources shifted from Nordic countries to Mediterranean lands. Thus in the decade between 1861 and 1870, Northern and Western Europe furnished over 70 per cent of our

immigrants, but in the decade between 1901 and 1910, Southern and Eastern Europe furnished almost 70 per cent of our immigrants.

The study of immigration has both social and economic aspects, which, of course, are closely interrelated. From an economic point of view, immigration presents the problem of industrial competition between different standards of living. Although it has played an important part in the industrial development of the United States, immigration has tended to lower the wages of American unskilled labor. The social problem of immigration is illustrated by the assimilation and Americanization of our foreign immigrants.

Early immigration to the United States was regulated neither as to quantity nor as to quality. In the closing years of the past century, however, numerous laws were passed to keep out undesirable aliens; herewith our nation passed from a period of free immigration to one of regulated immigration. During the period of the First World War, the United States passed from the regulation of immigration to the restriction of immigration. The literacy test was added to existing restrictions as to contract labor and as to the possession of a certain amount of money. In 1921, a quota system limited European immigration in a given year to 3 per cent of that of a given nationality in the United States according to the census of 1910. In 1924, the rate was further reduced to 2 per cent and the basis changed to the census of 1890. A national-origins plan for the determination of immigration quotas went into effect in 1929.

The depression of 1929 to 1933 resulted in a decrease in immigration and an increase in emigration. In 1932 and 1933, emigration from the United States exceeded immigration to it. In the following years of recovery, immigration figures again increased and surpassed those of emigration, failing, however, to reach the high levels of previous years. The United States may look forward to increased homogeneity of population, as well as to a slower rate of increase by a natural surplus of births over deaths.

The population of the United States is preponderantly but not entirely Caucasian. There are almost 13 million Negroes in our population. Although located principally in the agricultural South, there has been a considerable migration within recent years of the southern Negro to the industrial cities of the North. There are also over 200,000 Mongolians, concentrated chiefly on our western coast. Differences in race and standards of living prompted the United States to adopt a policy of exclusion toward the Chinese in 1882 and toward the Japanese in 1925. There are still over 300,000 Indians, or "native Americans" in the United States. Finally, there are in our Southwest over a million Mexicans, whose immigration to the United States has increased greatly in the past two decades.

Questions for Discussion

1. Show how the population of the United States has grown at a reduced rate of increase. Suggest reasons.
2. *a.* State the Malthusian theory of population.
   b. Do you believe it? Why or why not?
   c. Confirm or refute from American experience.
3. *a.* Show how the average length of life has increased in the United States.
   b. Give causes and effects.
4. *a.* Is our native-white stock declining?
   b. Is the United States apt to become a land of colored peoples?
5. Contrast early and later causes of immigration.
6. Contrast early and later immigrants to the United States.
7. Show the effects of immigration on standards of living and wages.
8. Indicate the effects of wars and the business cycle on the problem of immigration. Illustrate.
9. Show how the United States passed from free immigration to regulated immigration and then from regulated immigration to restricted immigration.
10. Explain the immigration restriction laws of 1921 and 1924.
11. What is the national-origins plan? Give its provisions.
12. Do you favor the literacy test for immigrants? Why or why not?
13. *a.* When and why did emigration exceed immigration?
    b. Do you expect this situation to be permanent or temporary? Why?
14. What peculiar problems does Asiatic immigration present?
15. *a.* Defend or criticize the exclusion of the Chinese.
    b. Do the same for the Japanese.
16. Show how the economic position of the Negro has changed.
17. What evidence is there of racial superiority in general and of Nordic superiority in particular?

Topics for Investigation

1. Relationship between economic life of a people and size of its population.
2. Immigration and the native-white birth rate.
3. Immigration restriction and the need for unskilled labor.
4. Effect of First World War on our immigration policy.
5. Selection of immigrants on the basis of fitness.
6. Organized labor and the immigrant.
7. Organized labor and the Negro.
8. Economic status of the Negro in the Black Belt.
9. Migration of the Negro into industrial cities of the North.
10. Americanization programs and the public school.

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PART TWO

PROBLEMS OF INCOME

Chapter V. Economic Prosperity and the Productivity of Labor, *Our National Wealth and Income.*

Chapter VI. The Ideal of Equality of Opportunity and the Facts of Economic Inequality, *Division of National Wealth and Distribution of National Income.*

Chapter VII. Theories of Wages and the Course of Real Wages, *Labor's Share in Our National Prosperity.*

Chapter VIII. Poverty and Subnormal Planes of Living, *Inadequacy of Family Wages.*

CHAPTER V

ECONOMIC PROSPERITY AND THE PRODUCTIVITY OF LABOR

OUR NATIONAL WEALTH AND INCOME

1. Central Problem.—Economics is the study of man in relation to wealth. The primary labor problem, then, is that of income, for men work to make a living and to gratify their economic wants.

Part Two is concerned with problems of income. From the analysis of the population of the United States given in the preceding chapter we proceed in this chapter to an appraisal of the national wealth, moving from a consideration of our human resources to an investigation of our material resources. Our former survey of the supply of labor in population is followed by the study of the services of labor in production and its rewards in wages.

The present chapter will treat production and trace the growth of our national income. The following chapter will analyze the division of our national wealth and the distribution of our national income. The next chapter will bring together some theories and facts of wages. The concluding chapter of this unit will deal with consumption, as expressed in planes of living and standards of living; the realities of poverty will be contrasted with the ideals of prosperity.

2. Nature of Wealth and Income.—Economic wealth includes all things having the following four characteristics: materiality, utility, scarcity, and transferability. Private property, discussed in Chap. III, is the intangible legal right to economic commodities and services.

Wealth constitutes the stock of economic commodities in existence at one time. Income, on the other hand, represents the flow of commodities and services over a period of time. Wealth is a source of income, and income is the product or yield of wealth, worked on by labor. Wealth includes only things; income includes services as well as commodities.

To repeat a homely but familiar illustration, a cow is wealth, but her milk is income. Again, wealth may be compared to a reservoir of water, and income to the weekly or yearly flow through the water meter. The national wealth similarly is a great reservoir of economic commodities; the national income is likewise a flow of commodities and services to consumers over a period of time.

Great inequalities exist in the ownership of the national wealth, as evidenced by written certificates of property rights such as deeds and

mortgages and stocks and bonds. The stream of national income flows from such different sources as property rights and personal services. It divides itself into branches of various size. To some individuals and families come shiny automobiles, fine clothes, and other luxuries, whereas to others come merely the bare necessities of life.

3. Analysis of the National Wealth.—It is easy to define wealth and income and to draw a glib distinction between them. But the application of these generalities to particular problems is difficult, as can be seen in attempts to appraise the national wealth and income of the United States.

The same things are not economic wealth among all peoples and over long periods of time. Water is a free good to most of us, but land is not. The reverse is the situation among some tribes in the Sahara Desert.

As population increases, natural resources develop scarcity. Although some commodities, such as the precious metals, are naturally scarce, others, such as timber and game, became so by wanton waste or willful destruction. The pressure of population on natural resources transforms free goods into economic goods; they develop value in exchange, as well as value in use. The legal institution of private property is extended to protect the possessors of these goods.

Physical wealth, in terms of feet of timber, head of buffaloes, or tons of coal, lessens rather than increases, as these goods are consumed or wasted, but their values in exchange, as expressed in dollars or some other pecuniary unit, tend to increase because of their growing scarcity; hence the paradox of wealth. As we become poorer in some forms of physical wealth, we become richer in the values represented by them.

This problem must be faced frankly by all who would measure the increase or decrease in our national wealth over a period of time. Thus an increase in its monetary value, as revealed by various census estimates, is due, in part, to the fact that some forms of wealth, formerly regarded as free goods, have become economic goods. Again, some economic goods, decreasing in amount, became more valuable as they became scarce.

4. Analysis of the National Income.—It is as difficult to determine just what items should be included under the term "income" as under the term "wealth." A research bureau, attempting to measure the national income over a period of time, finds extremely difficult the task of deciding just what items to include and what to exclude. It wishes to omit no portion of the national income, but it must be alert to avoid double counting.

Some individuals consume their own products to a greater extent than do other individuals. On the whole, however, more commodities and services go through the market place today than formerly, when

individuals and communities were more nearly self-sufficient. Nevertheless, many services are self-performed and not purchased; some commodities are still homemade or home grown. A man may shave his own face or he may go to a barber for that service. A woman may get her meals at home or she may accept a position and eat in a restaurant. We cannot say that one has no income or less income merely because he or she does not receive payment in money or work for a wage. It is incorrect to assume that the farmer and his wife who live on their own land and who consume their own produce are any less income producing and income consuming merely because their commodities and services do not go through the market and hence fail to register under our price system. It is as necessary to impute a value of unregistered production as to compute the value of commodities sold and services rendered for a price, even though it is difficult to do so accurately.

A correct estimate of the national income is menaced as much by counting a particular item over again as by omitting it. One portion of the national income goes into the formation of consumption goods, whereas another portion goes into the creation of capital goods, which are to be used for further production instead of immediate enjoyment. Due allowance must be made for the replacement fund of industry, or the national income will be exaggerated far beyond its true size. Constant care must be taken to avoid duplication of items which may reappear in various forms as they go through our roundabout system of production. For example, pig iron goes into the manufacture of steel sheets, which, in turn, may be pressed into automobile bodies. The finished products, automobiles, must be included in the national income, but their component parts, steel sheets and the iron therein, should not be added repeatedly and independently.

Finally, real income must be distinguished from nominal or monetary income. Any estimate of the national wealth or income over a period of years must be refined in terms of changes in the general price level. The increase or decrease in wealth and income, as expressed in dollars, may be more apparent than actual, owing to changes meanwhile in the purchasing power of money. Real income is a flow of commodities or services, for which dollars have been merely the medium of exchange or fluctuating standard of value.

5. Ideal of Economic Prosperity.—Economic prosperity may be defined as the relative abundance of economic goods, including both commodities and services.

Social welfare includes many other elements in addition to economic wealth, just as individual happiness requires more than an adequate personal income. Social institutions condition social welfare and social ideals direct social progress. But economics is a bread-and-butter sub-

ject and the economist confines himself to economic prosperity, although he freely admits that man does not live by bread alone.

It is generally conceded that economic prosperity is a factor in social welfare, whatever else the latter term may include. Similarly, the happiness of most individuals, who are ordinary human beings and neither misers nor saints, requires sufficient income to meet the physical needs of life and to conform to the social standards of the group to which they belong. Obviously, however, human character is determined by more elements than food, shelter, and clothing, important though these factors are.

Prosperity is an economic ideal in the same sense that democracy is a political ideal, virtue a moral ideal, and beauty an aesthetic ideal. Any ideal is a relative term and a variable concept. Social progress is accompanied by a lifting of the ideal to still higher standards. Consequently, progress toward it is obscured. Thus economic progress toward the existing ideal of prosperity constantly advances that goal of economic well-being. As higher planes of living are enjoyed, still higher standards are desired.

6. Artificial and Real Prosperity.—It is important to distinguish between artificial and real prosperity, *i.e.*, between a stimulated prosperity and a natural prosperity. It will be seen that higher prices and increased production are not inseparable, although they are frequently associated.

Artificial prosperity is stimulated by rising prices due to inflation or an overexpansion of the circulating media. Real prosperity, however, is brought about by a natural increase of production due to greater industrial efficiency. Real economic prosperity is measured, not by quantities of money, but by an abundance of economic goods with which to gratify human wants. Artificial prosperity is as deceiving as the hectic flush of an invalid, which indicates an approaching collapse rather than a healthy condition. Similarly, inflation is followed by deflation, and an unwarranted industrial expansion contracts after a severe economic crisis.

The business cycle is one of the greatest of all labor problems. Rising prices in periods of recovery and prosperity necessitate an increase of money wages, if the real wages of workers are to be maintained at their former levels. Falling prices during crises or depressions are accompanied by gains in real wages, if money wages fall less than costs of living. This advantage, however, is generally offset by cuts in wage rates and by reduction or loss of employment. Hence labor is threatened by all phases of the business cycle. Our economic order has not given workers stability or security.

7. False and True Prosperity.—If economic prosperity is the relative abundance of economic commodities and services, its cause must be

production and its evidence must be abundance. False prosperity results from the destruction of economic goods and the restriction of production; their aim and end are scarcity. True prosperity, which alone can raise planes of living, implies more goods and lower prices. False prosperity, which actually lowers planes of living, implies fewer goods and higher prices.

True prosperity, moreover, has its qualitative as well as its quantitative aspect. It requires proper proportion between consumers' goods and capital goods and a delicate balance between agricultural production and industrial production. False prosperity is exposed in misdirected production or disparity between farm and factory; it results in economic depression.

Wars present an economic paradox as well as a social menace. They increase both production and destruction. They stimulate production quantitatively, but change its character qualitatively. Bombers are built instead of automobiles, and battleships replace schools. Factories are tooled up to produce instruments of destruction and neither capital goods for production nor consumers' goods for enjoyment. National security may require such changes in industrial production for the successful prosecution of total war, but can the economist regard more bombers and bigger tanks as a net increase in the national wealth and income? War stimulates the munitions industries, but their objectives are destruction and not production, devastation and not prosperity. Again, war misdirects production, disturbs the delicate economic equilibrium of supply and demand, and engenders inflation. Hence it creates false and artificial prosperity, instead of true and natural prosperity.

8. Diffused and Stabilized Prosperity.—Individual prosperity does not follow naturally or necessarily from collective prosperity. In this land of plenty many families still live in dire poverty, even in periods of so-called "prosperity." Serious maladjustments, such as unemployment, continue beneath the surface, only to rise conspicuously in periods of economic depression. In short, our prosperity has been unevenly diffused throughout our population and irregularly distributed over periods of time. Can a nation properly be called prosperous, if its prosperity is only for the few and only for the time being?

The depression of 1929 to 1933 demonstrated that American prosperity was lacking in stability and spotty in character. Although the United States had led the world in economic production in the previous decade, it had failed to cope adequately with the problem of improved distribution. Truly it is a paradoxical or ill-digested prosperity which is unable to consume its own huge and varied output because of a maldistribution of purchasing power among groups of people and an instability of purchasing power over periods of time.

9. Analysis of National Prosperity.—An analysis of American prosperity requires not only a clear definition of terms but also a full exposition of the facts. The scientific method seeks to determine, not only the size of our national income, but also its actual distribution. What is the basis in fact for our assumption of prosperity for the nation as a whole and for particular economic groups within it? Is the national income adequate in size to eliminate poverty? Is it distributed in such a fashion that a decent standard of living can be enjoyed by all workers and their families? These are some of the vital questions to be considered in this part of the text, for problems of income are fundamental in a study of the economics of labor.

10. Basis of American Prosperity.—The primary agents of production are land and labor; a rich geographical environment, occupied by an intelligent and industrious people, is conducive to national prosperity, provided the population is not too congested for its natural resources. Secondary factors in production are accumulated capital and acquired knowledge; increased prosperity is conditioned by an economic surplus of goods and an enlightened state of the arts. Our material well-being is due mainly to a favorable ratio of population to natural resources and to the progress of economic inventions and industrial improvements.

Nature has been bountiful to the United States: our physical environment possesses valuable mineral deposits, fuel supplies, and water resources; our land is abundant, fertile, and diversified; our climate is temperate and stimulating. Moreover, as shown by the preceding chapter, the population of America is not so dense as that in Europe and Asia.

In spite of considerable waste, it may be said that America's adaptation to her physical environment has been fairly satisfactory. Our inventive genius and capacity for industrial organization are famous. The intelligence and skill of our workers are probably as great as anywhere else in the world. Although productivity per acre is higher in those countries which practice a more intensive cultivation of the land, productivity per man is higher in the United States than in most other portions of the world.

11. Causes of Increased Productivity.—Although all these basic factors condition national prosperity, the chief cause of the great modern increase in production has been the discovery and utilization of new sources of mechanical power, the displacement of the hand tool by the machine, and the replacement of crude rules of thumb by improved industrial techniques. This was the "theme song" of Chap. II.

The productivity of an American worker is many times that of a Greek or Roman slave. The ancient toiler worked with his bare hands, or at best with primitive tools, but the modern laborer is aided by the industrial

giants of power machinery. A small mill in Periclean Athens, for example, could grind only one or two barrels of flour a day, but a single large plant in Minneapolis now turns out daily between 15,000 and 20,000 barrels of flour.

Increased productivity has resulted both from direct causes, such as power machinery and technological advances, and from indirect causes, such as improved social organization and general progress of the arts. Perhaps the secret of our increased productivity lies in the continued march of inventions and discoveries, the rapid increase of practical knowledge, and the wide dissemination of vocational education.

The invention of power machinery and the discovery of improved processes are related social developments; both are essential in an explanation of our present economic potentialities. In this expansion and utilization of acquired knowledge making for a superior adaptation to the physical environment, the inventive genius of the Yankee has been conspicuous; American laborsaving devices are famous the world over.

12. New Industrial Revolution.—Invention of power machinery and improvement in manufacturing processes began with the old industrial revolution in England in the latter half of the eighteenth century. But a new industrial revolution of comparable significance has taken place in the United States within the past generation. Inability to adjust ourselves with sufficient speed and smoothness to its momentous changes was one cause of the great depression of 1929 to 1933.

Increased mechanization of industry has been accompanied by a further expansion in the size of the business unit and in a still more minute division of labor. Large-scale manufacturing has been paralleled by large-scale managing and large-scale marketing. Mechanization, specialization, and standardization have reached their zenith in mass production, so well illustrated in the modern automobile industry. Indeed, the evolution of the superfactory in the new industrial revolution may be likened to the transition from the domestic to the factory system in the early industrial revolution. Their good results have been higher standards of living and shorter hours of work; their bad results have been increased strain of occupation and decreased regularity of employment.

A word must be said in conclusion about recent developments in electricity and the modern marvels of industrial chemistry. Just as the noisy, dirty steam engine dominated the early phases of the industrial revolution, so the quiet, electric motor and the clean hydroelectric turbine exemplify the silent power of the new industrial revolution. The cheap and efficient transmission of electricity is revolutionizing farm, as well as city; home and office, as well as factory; methods of transportation, communication, and illumination, as well as methods of manufacture. It has been said that, whereas steam power was the enemy of the home,

electric power is its friend. Electricity may facilitate future decentralization of industry, just as the steam engine produced past concentration in industry.

13. Relation to Labor's Efficiency.—An increase in the productivity of labor does not imply a corresponding improvement in the efficiency of the individual worker. The great gains of the new industrial revolution have been brought about chiefly by increased use of power machinery and by improved processes of manufacture. The secret of increased industrial productivity is that of technological progress and advance in the arts of production. It has been described as follows:

> It is obvious that we cannot have any general gain of wealth, comfort and enjoyments for the whole nation save by a definite increase in the product per worker; no other way. But this, we now know, does not usually mean any fabled gain in the "efficiency" of the workers. There may be little, but only that. It may be doubted if, on the average, the workers of today are more industrious, skillful, or "efficient" than those of a century ago. Practically the sole gain in product is through improved machinery, new processes, new inventions and discoveries. This is precisely what is meant by the Industrial Revolution.[1]

14. Relation to Labor Policy.—Consuming power comes ultimately from production; and, in the long run, increased production means increased consumption. Therefore, higher standards of living are promoted, not menaced, by increased production. An enlarged national income makes possible enlarged shares thereof, even without changes in their relative proportions.

On the other hand, long-continued or widespread destruction of wealth, by war or waste, is bound to reduce the national income out of which wages must be paid. Restriction of output, like destruction of wealth, operates in the same negative fashion. If a conflict of interests among individuals or groups, representing different shares in distribution, results in industrial friction and curtails production, the national income will be reduced. In the past, most aims of workers to raise wages have been sought through broader distribution, rather than through higher production. Frequently the restriction of production, not its increase, has been preached and practiced. On the other hand, employers often have stressed increased production, ignoring or minimizing problems of maldistribution. The next chapter will demonstrate that the workers have shared in the gains of the new industrial revolution, but not proportionately to capitalists. Let us first see how great has been the increase in industrial production and its effect on the size of the national income.

[1] SNYDER, CARL, "Capital Supply and National Well-being," *American Economic Review*, June, 1936, pp. 210–212.

15. Trend toward Increased Production.—The long-run trend of production in the United States can be shown more accurately by an index based on physical units, such as bushels of wheat, tons of coal, and yards of

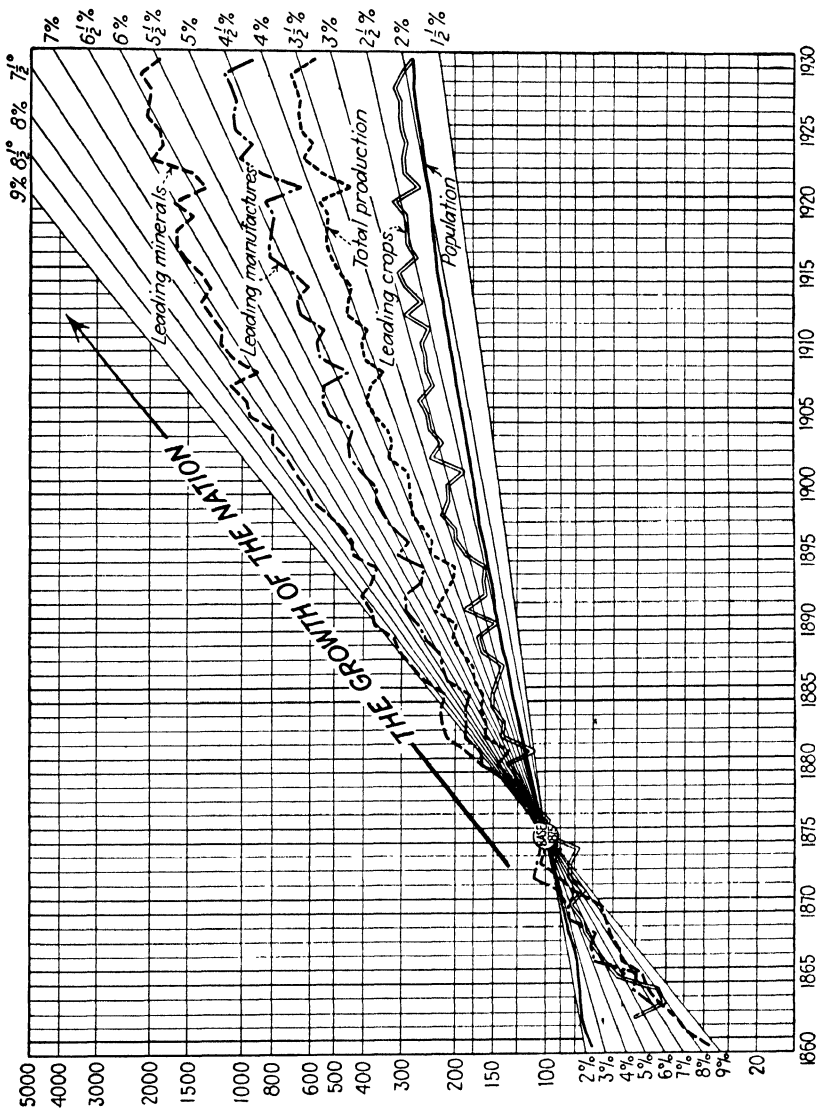


CHART 14.—Increase in American production and population. (*Reprinted by permission from "Forecasting Business Cycles" by the late W. M. Persons, Published by John Wiley & Sons, Inc.*)

cloth than by an index based on value units expressed in dollars of varying purchasing power. The use of constant physical units, instead of variable value units, eliminates the distortions caused by fluctuations in the general price level.

Although this refinement gives a clearer picture, it is not complete. An index of production is limited to those goods which can be measured; *i.e.*, those which go through the register of our exchange economy. It misses goods consumed locally by their own producers. For example, potatoes raised for market and sold to a commission merchant would be recorded, but those consumed by the farmer himself would not be recorded in such a production index.

One of the best analyses of the long-run trend of physical production in the United States is that made by Dr. Warren M. Persons, in "Forecasting Business Cycles." (See Chart 14 on page 89.) This graph shows the trend of physical production in relation to population between the years 1860 and 1930, using the year 1875 as the base or 100 per cent. Total production is given in the form of a composite index; it is also broken down into its three component elements, *viz.*, crops, manufactures, and minerals. Total increase and annual rate of increase in all these indices are given in percentages on the left side and on the right side respectively of the chart.

Eliminating cyclical fluctuations, physical production, like population, has displayed a secular trend toward increase at a decreasingly rapid rate. Perhaps it is natural that the long-run trend of physical production should be similar to that of population. Despite their similar trends, however, the annual rate of growth of physical production, at least for most years between 1875 and 1929, was about 4 per cent or twice that of population, which increased more uniformly but also more slowly. When the net result over a period of years is substituted for the annual rate of growth, which is somewhat misleading because of its fluctuating character and diminishing rate, the contrast between population growth and production increase becomes more striking. From 1875, the base year, to 1929, a turning point in recent economic history, physical production increased nearly sixfold, rising from an index of 100 per cent in 1875 to one of 681 in 1929. Population meanwhile rose from a base of 100 per cent in 1875 to one of only 275 in 1929.

This increase in physical production is the basis of American prosperity. It is all the more remarkable in that it was accomplished in spite of a shrinkage in the working day and week. The results of higher productivity, then, are improved planes of living and increased leisure, both of which topics will be treated in subsequent chapters. Causes of higher productivity, such as increased mechanization and improved techniques, have been indicated in earlier sections of this chapter.

16. Trend toward Increased Industrialization.—This discussion of the quantitative aspect of production must now be supplemented by a brief analysis of its qualitative aspect; the change in the form of American production is as important as its increase in volume.

The changing character of American economic life was illustrated in Chart 12, in the preceding chapter. It is shown also in Chart 14, which breaks down total physical production into its three component elements, *viz.*, crops, manufactures, and minerals. Agricultural production increased more slowly than either of the other two types of production; its rate of increase declined even more rapidly; the decline in its rate of increase set in earlier. The growing industrialization of the United States in the past fifty years is apparent.

Our recent increase in physical production has been chiefly in the form of minerals and manufactures, not in crops. The peak in agricultural production was reached in 1920, when the index of crop production was slightly over 300, as contrasted with one of 600 for physical production as a whole, using 1875 as the base or 100 per cent. The peak of industrial production was not reached until 1929, and it was a much higher peak than that of agricultural production. From 1875 to 1929, physical production of minerals rose from 100 to over 2,100, an increase of over 2,000 per cent, and that of manufactures from 100 to over 1,100 or an increase of over 1,000 per cent.

The industrialization of the United States has created numerous social problems, such as those of migration of population and growth of cities. Specialization and urbanization involve increased interdependence, which, in turn, requires greater social control and more governmental regulation than does a relatively independent and self-sufficient agricultural economy. Finally, and of especial significance to students of labor problems, is the fact that workers in industry are more generally organized than are workers in agriculture. The industrialization of the United States was featured by the growth of labor organizations and by the development of labor disputes of national significance.

17. Recent Increase of Industrial Production.—The preceding two sections pictured the long-run trend toward increased production, especially industrial production. Let us now examine more closely the past few decades to discover if these general trends have become more or less pronounced within recent years. For this purpose we are fortunate in having "The Output of Manufacturing Industries, 1899–1937" by Solomon Fabricant. The year 1899 was chosen for the beginning of this study for that is the first year for which there is adequate information from the U.S. Census of Manufactures.

The general trend toward increased industrial production, previously described, was continued and confirmed. Indeed, the rate of increase seemed to have been accelerated during recent years. Between 1899 and 1919 the output of our manufacturing industries rose 20 per cent more rapidly than our entire national output; between 1919 and 1937 it rose 35 per cent more rapidly. The total output of all manufacturing plants in

the United States increased by 276 per cent from 1899 to 1937; this constituted an average annual increase of 3½ per cent.

This increase in industrial output, however, was irregular. There were intervals in this period of 38 years when industrial production did not progress but actually regressed. The most conspicuous decline was that from 1929 to 1932. In 1932, industrial production was reduced to that of 1913; but by 1937 it had regained its former peak of 1929.

18. Cyclical Fluctuations in Industrial Production.—The secular trend toward increased industrial production, then, has been marked by numerous fluctuations, some due to such random changes as wars and others due to the cyclical changes of depressions.

Between the First and the Second World Wars, there have been at least three distinct dips in the upward trend of production in the United States: (1) the minor depression in 1921; (2) the major depression from 1929 to 1933; and (3) the recession from the summer of 1937 to the summer of 1938. Analysis of the nature and causes of the business cycle is outside the scope of this volume. We are here concerned merely with its effects, which can be read in the following index of industrial production, including manufacturing and mining but excluding farming.

INDUSTRIAL PRODUCTION INDEX IN THE UNITED STATES[1]
(Base or 100 Per Cent, Average Level, 1935 to 1939)

Year	Index	Year	Index
1919	72	1931	75
1920	75	1932	58
1921	58	1933	69
1922	73	1934	75
1923	88	1935	87
1924	82	1936	103
1925	90	1937	113
1926	96	1938	89
1927	95	1939	108
1928	99	1940	123
1929	110	1941	156
1930	91	1942 (first 9 months)	176

[1] Federal Reserve *Bulletin*.

The index of industrial production, recorded in the Federal Reserve *Bulletin*, indicated the severity of the great depression from 1929 to 1933. The lowest level was reached in 1932, at which time industrial production was only half that of 1929. Subsequent recovery by 1937 raised industrial production, not including agricultural production, to approximately the same level as that of 1929. The recession of 1938, like the minor depression of 1921, was shorter than the major depression extending from 1929

to 1932. Natural recovery after the business recession of 1938 was stimulated by the national defense program. Industrial production by 1940 had surpassed its former peaks of 1929 and 1937. In 1941 and 1942 it reached unprecedented levels.

19. Production in United States Compared with That of Other Countries.—Chart 15 pictures cyclical changes in industrial production from 1920 to 1936, inclusive, for the United States and for other leading

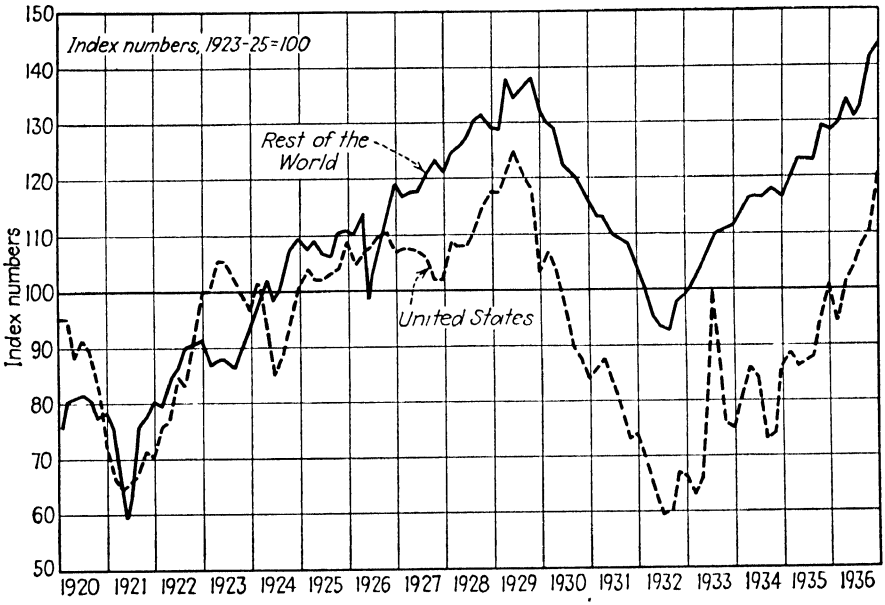


CHART 15.—Industrial production of United States and rest of the world. (*From Cleveland Trust Company, Industrial Bulletin, Oct. 15, 1939.*)

The nine leading industrial nations, other than the United States, included in this index are the United Kingdom of Great Britain and Ireland, France, Germany, Italy, Japan, Canada, Czechoslovakia, Belgium, and Poland. The index for the United States is that of the *Federal Reserve Bulletin*, old basis. The index for the rest of the world is that of Norman J. Wall, "Monthly Index of World Industrial Production 1920 to 1935," U.S. Department of Agriculture.

industrial nations of the world. It shows the degree to which cyclical movements in the United States have paralleled those in other leading industrial nations. There are similar drops in industrial production in 1921, the year of the first postwar depression, similar upward movements in the prosperous twenties, similar drastic drops from 1929 to 1932, and similar upward movements in the following years of recovery. Apparently, nationalistic policies have failed to produce economic isolation, if immunity from the business cycle is a fair test.

There are several noteworthy differences, however, in the course of industrial production in the United States from that in the rest of the world. During the First World War and the years immediately following it, the United States was leading in rate of increase. Subsequently,

however, this country began to lag; this lag was noticeable even before 1929. Moreover, in the years of the great depression, industrial production declined farther and faster in the United States than it did in Europe. Again, industrial recovery in this country, except for the fast but false start of 1933, lagged behind that of Europe.

Some industrial experiences of the First World War were repeated during the Second World War. There was a similar stimulus to production and a comparable alteration of its character. The United States again became a great arsenal of democracy and a source of men and materials for the United Nations. The devastation of the Second World War was greater and wider than that of the First World War. Postwar rehabilitation will be equally necessary but even more difficult.

20. Increase in Industrial Productivity.—The term "production" refers to the total volume of output, whereas the term "productivity" means rate of output. Production can be expressed either in physical units or in value units. Productivity is generally expressed as production per man-hour. Greater production means increased prosperity; the prosperity phase of the business cycle brings increased production but not necessarily increased productivity. During a business depression, production decreases, but productivity, or rate of production, may remain constant or even increase.

The National Industrial Conference Board has surveyed our increase in industrial productivity.[1] Chart 16 illustrates the growth of output per man-hour in American manufactures. The top line traces the increase in manufacturing production from 1899 to 1938; the middle line, the negligible net change in man-hours employed during the same period. At the peak of prosperity in 1929, industrial production was three times that of 1899; at the end of the depression in 1933, production was twice that of 1899. On the other hand, man-hours employed reached a 1929 peak only 50 per cent higher than that of 1899; at the end of the depression in 1933 man-hours were actually below those of 1899. The bottom line expresses the net result in industrial productivity or output per man-hour in manufactures, which increased slowly but steadily from 1899 to 1919, and thereafter rapidly until 1933, after which it leveled off at a rate over twice that of 1899.

An independent study[2] by the Brookings Institution gives additional evidence of increased industrial productivity during recent years. Within manufactures, productivity increased 25 per cent from 1923–1924 to 1928–1929 and 20 per cent from 1928–1929 to 1936–1937. For the entire period 1923–1924 to 1936–1937 productivity within manufactures

[1] National Industrial Conference Board, *Bulletin*, Feb. 9, 1939.

[2] BELL, SPURGEON, "Productivity, Wages and National Income," Brookings Institution, Pamphlet 23.

increased 50 per cent, whereas the physical volume of output increased only 25 per cent; within this interval there was a slight increase (3.5 per cent) in the number of wage earners and a considerable decrease (16 per cent) in the number of man-hours employed.

21. America's Capacity to Produce.—The general trends toward increased production, despite cyclical depressions, and toward increased

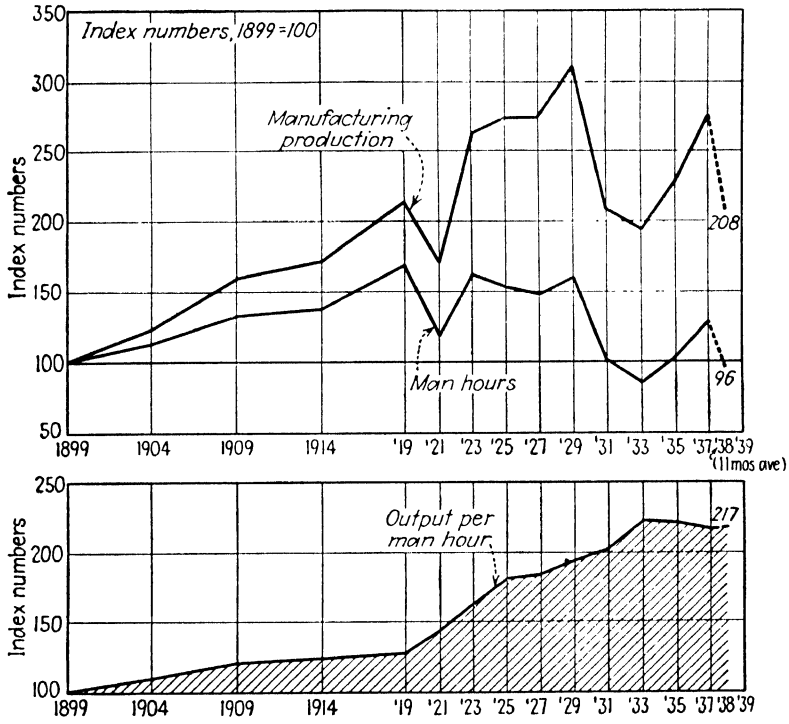


CHART 16.—Increase in our industrial productivity. (*The National Industrial Conference Board, Conference Board Bulletin, Feb. 9, 1939.*)

productivity, even during depressions, have laid the broad basis for our national prosperity, which has expressed itself in higher planes of living and shorter hours of work. But has American production been as great as it might have been, and have our people fully realized the great potentialities of recent technological progress?

The answer to these questions can be found in a study undertaken by the Brookings Institution, the findings of which appeared in a volume entitled "America's Capacity to Produce." President H. G. Moulton discovered great variations from industry to industry and from year to year in the degree to which full productive capacity was utilized, but his

general conclusion was that, on the whole, the United States was far from a full utilization of its entire productive capacity in either industry or agriculture.

In the period from 1922 to 1934, the fullest utilization of productive capacity was reached in 1929, the peak year of prosperity, and the least utilization of productive potentialities occurred in 1932, at the depths of the depression. Dr. Moulton contended that even in 1929 our country

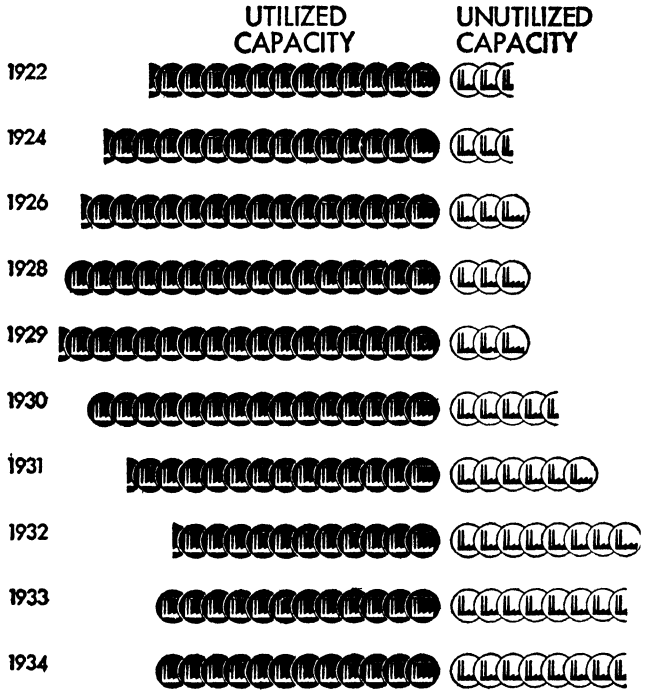


CHART 17.—Productive capacity and actual production (in 1929 dollars). (*From "Income and Economic Progress," Public Affairs Pamphlet No.* 1.)

could have produced 20 per cent more of economic goods than actually were produced, or, expressed in terms of money, a national income of $96 billion instead of one of only $81 billion. This average of 80 per cent utilization for industry as a whole in 1929, when broken down into particular industries, was found to vary from a low of 45 per cent in the locomotive industry to a high of 92 per cent in the full-fashioned-hosiery industry.

Dr. Moulton's judgment was that the 20 per cent nonutilization ratio for 1929 might be regarded as a fairly constant rate and a rather conservative annual estimate for the thirty previous years. For the period of

depression following 1929, a more variable and a still higher ratio of non-utilization was discovered. It rose to a peak in 1932, when the total amount of commodities and services produced was approximately 31 per cent less than in 1929. Assuming about the same plant capacity for the two years, actual output in 1932 was only 55 per cent of potential production, in contrast to 80 per cent of capacity in 1929. During the following years of recovery, 1933 and 1934, production rose somewhat to about 60 per cent of the nation's potential capacity.

Chart 17 pictures actual production, potential production, and the discrepancy between them, for the years from 1922 to 1934, inclusive, expressed in terms of real national income through the use of a constant dollar of 1929 purchasing power.

The cumulative effect of unused production capacity on national welfare is apparent. According to estimates of the Brookings Institution, had we made full use of all our potential capacity for production in the years of prosperity from 1922 to 1929, inclusive, additional commodities and services worth $113 billion would have been produced. Similarly, in the four following years, additional economic goods worth $135 billion could have been produced. Thus, the total combined loss in real income for slightly over a decade from failure to utilize the full productive capacity of the nation amounted to $248 billion or almost a quarter of a trillion dollars, a sum roughly equivalent to three fourths of the value of the entire wealth of the United States at that time.

WEALTH OF THE UNITED STATES,[1] 1850 TO 1922

Year	Total wealth (billions of dollars)	Per capita wealth
1850	7	$ 308
1860	16	514
1870	30 (paper)	780
1870	24 (gold)	624
1880	44	870
1890	65	1,036
1900	89	1,165
1904	107	1,318
1912	186	1,950
1922	321	2,918

[1] U. S. Census Bureau.

22. Growth of Wealth of the United States.—The preceding table gives some estimates made by the U. S. Census Bureau of our national wealth. The figures for the years before 1850 are not trustworthy and have not been included. The figures for the years after 1850 are not entirely comparable or reliable.

Although these estimates are not refined for changes in the purchasing power of the dollar, it is apparent that the wealth of the country has increased. This has been due, in part, to the great industrial development of the United States and also, in part, to the reclassification of items as economic goods which were formerly regarded as free goods.

WEALTH OF THE UNITED STATES,[1] 1922–1937

Year	Total in current dollars (billions)	Total in constant 1926 dollars (billions)	Current dollars per capita
1922	307	333	$2,792
1929	354	338	2,910
1933	289	384	2,297
1937	322	342	2,490

[1] National Industrial Conference Board, *Bulletin*, Oct. 5, 1939.

Estimates of the national wealth of the United States for more recent years have been made by the National Industrial Conference Board. Current dollars have been refined into dollars of constant purchasing power and then expressed on a per capita basis. These estimates are given above.

23. Growth of Our National Income.—In one of the first comprehensive studies[1] of our national income, Dr. W. I. King of the National Bureau of Economic Research concluded that the per capita real income of the people of the United States, as expressed in terms of a constant, *viz.*, the average price level from 1890 to 1899, increased from $69 in 1850 to $262 in 1910 or fourfold within these sixty years. Although some of this great increase in per capita real income was due to our transition from a self-sufficient economy to one of exchange, much was due to increased production. The conclusion of increasing prosperity seemed warranted.

Studies of the national income have been continued by the National Bureau of Economic Research; they have been inaugurated by the National Industrial Conference Board and by the U.S. Department of Commerce. The following table gives estimates of the national income in current dollars and in dollars of constant purchasing power; it also gives per capita national income in current dollars and in constant or cost-of-living dollars.

It is apparent that the national income in current dollars has fluctuated more than the national income in constant dollars. Even the per capita real income of the United States, refined for changes in population and for changes in costs of living, shows considerable variation, rising

[1] KING, W. I., "Wealth and Income of the People of the United States."

Year	Estimates of National Industrial Conference Board[1]				Estimates of U. S. Department of Commerce[2]		
	Total national income		Per capita national income		Total national income		Per capita national income
	Current dollars (billions)	Constant 1926 dollars (billions)	Current dollars	Constant 1926 dollars	Current dollars (billions)	Constant 1935 to 1939 dollars (billions)	Constant 1935 to 1939 dollars
1900	16.2	36 6	212	480			
1901	17.2	37.9	221	488			
1902	18.4	39.8	232	501			
1903	19.6	40.3	242	498			
1904	20.1	41.8	243	506			
1905	21 4	44 5	254	529			
1906	23.2	46.6	270	543			
1907	24.4	46.5	279	531			
1908	23 4	46 6	263	524			
1909	26.5	52.6	292	580			
1910	28 2	53 0	305	575			
1911	28.1	52 9	300	565			
1912	29.4	52 1	309	549			
1913	31 5	56 9	326	589			
1914	31 2	55.3	319	565			
1915	32 5	57 2	327	576			
1916	38 7	63 2	384	627			
1917	46 4	65 6	454	642			
1918	56 9	66 9	550	646			
1919	62 9	65 1	599	620			
1920	68 4	60 4	642	567			
1921	56 7	57 8	524	534			
1922	57 2	61 2	520	557			
1923	65 7	68 5	589	614			
1924	67.0	69 0	592	610			
1925	70 1	70 5	610	614			
1926	73 5	73 5	631	631			
1927	73 9	75 6	626	640			
1928	75 9	78 7	633	656			
1929	79 5	82.8	654	681	83.3	68 0	560
1930	72 4	78 1	588	634	68 8	57 9	470
1931	60 2	72 0	485	580	54.4	50.9	410
1932	46 7	62 5	374	500	39 9	41.6	333
1933	44 7	62.3	356	495	42 3	45 7	364
1934	51.6	67.8	407	535	49.3	50 5	400
1935	56.5	71.7	443	562	55 7	56 0	440
1936	65 7	81 5	511	634	64 9	65 2	509
1937	69.2	82.2	536	636	71 5	69 0	536
1938	63.0	76.7	484	589	64 1	64 1	494
1939	68.5	84.6	522	645	70.8	71 8	549
1940	71.9	87.9	545	666	77 2	77.9	590
1941					94.5	89.1	669

[1] "Essential Facts for Fiscal Policy," July, 1941.

[2] *New York Times*, Mar. 8, 1942.

in periods of prosperity and falling in years of depression. Nevertheless, the long-run or secular trend is upward. The more complete evidence for the period 1900 to 1940, like the tentative estimates for the earlier period

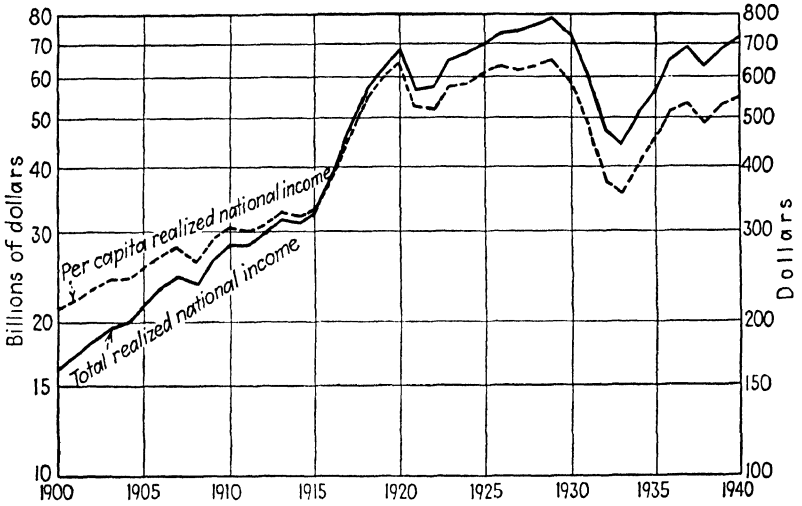


CHART 18.—Total and per capita national income in current dollars. (*National Industrial Conference Board, "Essential Facts for Fiscal Policy," July*, 1941.)

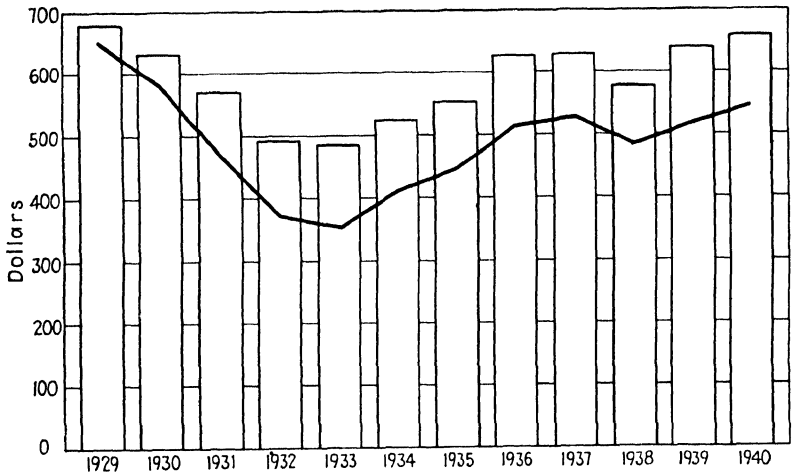


CHART 19.—Per capita realized national income. Line expresses current dollars, bars represent constant dollars of 1926 purchasing power. (*National Industrial Conference Board, "Essential Facts for Fiscal Policy," July*, 1941.)

from 1850 to 1910, point toward a rising tide of national prosperity despite the fluctuating waves of particular years.

24. Comparison of National Incomes.—To visualize prosperity a comparison over time must be supplemented by one over space. We

have traced the growth of the national income of the United States over a long period of years. We shall now compare the national income of the United States with the national incomes of several other nations.

The following table gives some per capita national incomes in 1914, in the middle twenties, and in the middle thirties; *i.e.*, first at the outbreak of the First World War, then in the relatively peaceful and prosperous postwar period, and, finally, in the period of readjustment after the great depression and immediately before the Second World War. Even after allowances are made for differences in costs of living in these various lands, the relative prosperity of the English-speaking nations in general and of the United States in particular is evident in all three periods. The so-called "have" nations stand out in contrast to the so-called "have-not" nations in conflict during the Second World War.

PER CAPITA NATIONAL INCOMES OF VARIOUS COUNTRIES
(In Current Dollars)

Nation	1914	1924 to 1928	1936
United States	$335	$749	$508
United Kingdom	243	409	457
Germany	146	190	389
France	185	201	276
Italy	112	115	
Spain	54	187	
Japan	29	66	54
Austria-Hungary	102		
Austria		140	155
Hungary		113	138
Czechoslovakia		172	
Jugoslavia		109	
Australia	263	477	409
Canada	195	579	343
Union South Africa		112	
India		37	

The figures for 1914 are taken from a summary of the estimates of various foreign writers compiled by Sir Josiah Stamp and adapted by National Bureau of Economic Research. *Cf.* "Income in the United States, 1909 to 1910," vol. 1, Summary, p. 85.

The figures for 1924 to 1928 are taken from "Some New Estimates of National Income" prepared by Harvey E. Fisk of the Bankers Trust Company. *Cf. American Economic Review*, p. 23, March, 1930. These estimates can be compared only with a considerable margin of error, for the annual incomes in these various countries are for different years running roughly from 1924 to 1928. The 1924 to 1928 estimate for Spain is of an even earlier date, but it is apt to be an exaggeration rather than a conservative estimate. The estimate for Great Britain (1924), unlike that for 1914, excludes the Irish Free State.

Estimates for 1936 are from the National Industrial Conference Board's *Economic Record*, Aug. 3, 1939, p. 35.

25. Adequacy of Our National Prosperity.—Admitting that the United States is the most prosperous nation in the world, is our national income sufficient to abolish poverty and to guarantee to each individual

and family a decent standard of living? Before getting the facts in the next chapter as to the actual distribution of our national income, let us see what the national income would permit each family were it equally divided; *i.e.*, what has been the average, rather than actual, per family income.

The family is the basic consuming unit in any country. The average American family was formerly one of five members; but according to recent census figures the average American family is now one of approximately four members. Taking the per capita national income figures, given in the table on page 99, and multiplying each by four, the per family national income varies from a high level of $2,616 in 1929 to a low level of $1,424 in 1933. These amounts would seem to be sufficient to provide a comfortable plane of living in good years and the bare necessities of life in bad years for a family of four members.

In 1935–1936, a fairly typical year, 116 million consumers lived in 29½ million families. They had a total family income of $48 billion, which if divided equally among all those families would have given each family a yearly income of $1,622. In that same year 10 million consumers lived as single individuals; they enjoyed a total income of $11½ billion, which if shared equally would have given each an annual income of $1,150. Finally, 2 million consumers lived in institutional groups, as members of which part of their income came in the form of free living quarters or commodities and services furnished them. Had their total income of $724,000,000 been divided equally each would have received $362 during the year.[1]

Sober statistical analysis of the facts of national income seem to point toward the middle of the road, between dire pessimists, on the one hand, who deplore the inadequacy of the national income and claim that the problem of the good life is chiefly one of increased production, and extravagant optimists, on the other hand, who rejoice in the all-sufficiency of the national income and claim that the problem of poverty is simply one of unequal distribution.

26. Limitations of Present Prosperity.—Perhaps a final word of caution is necessary. Although the equal division of the national income might temporarily raise all families out of what is now regarded as poverty, it would not allow the popularization of conspicuous consumption. Nor would it permit the multiplication of leisure time without some sacrifice of economic well-being. Of course, a sharing of work between the employed and the unemployed is merely a division of existing work and wages without any change in total hours of labor and total volume of production. In any event, the utopian dream of certain visionaries, from

[1] *Consumers' Guide*, September, 1938, p. 9. Figures are taken from "Consumer Incomes in the United States," issued by the National Resources Committee.

Brook Farm to technocracy, that an equal division of the national income would permit all individuals to live in comparative luxury and leisure is neither logical in its economic theory nor correct in its economic facts.

Progressive standards of living are conditioned by constantly increased production. Although the repetition of this theme song may have become tedious to the reader, certain national experiments, designed to bring back prosperity by destroying wealth and by restricting production, afford eloquent testimony to the fact that it is still a controversial point, rather than a generally accepted axiom.

With continued mechanization and improved processes, industrial productivity may increase so rapidly that more goods than formerly can be turned out in spite of a reduction in the length of the working day. But at any particular time and in a given state of the arts, economic well-being must choose between increased production and increased leisure or a judicious sharing of the two. As prosperity depends on production, so a decrease in production is a direct threat to national prosperity. On the other hand, a rapid increase in productivity may be expressed in fewer hours of work instead of higher planes of living. As will be demonstrated later, the period of prosperity in the twenties brought increased earnings and higher planes of living to workers. Years of depression in the early thirties and years of recovery in the middle thirties brought them more unemployment and greater leisure.

Economic well-being is a problem of maldistribution, as well as one of insufficient production. Inadequate planes of living can result, not only from inefficient and wasteful methods of production, but also from glaring inequalities and inequities in distribution. Nevertheless, it does not follow that communism or absolute equality of wealth and income will promote prosperity. The equal division of the national income was suggested merely to obtain a theoretical average, per capita or per family, in order to test the adequacy of our national income to maintain what is regarded at any given time as a decent standard of living.

Although the institution of private property has permitted the perpetuation of economic inequalities, it has acted also as a spur to increased productivity. Rash changes in distribution, which savor of confiscation, might result in so great a decrease in the national income that a lowering, rather than a raising, of standards of living might take place. The division of our national income and the problem of economic inequality will be discussed in the next chapter. Our present problem has been merely the productivity of labor and growth of our national income.

Summary.—Economic wealth has materiality, utility, scarcity, and transferability. Wealth is the stock of economic commodities in existence at a particular time. Income is the flow of commodities and services over a period of time.

True prosperity is the relative abundance of economic goods; it arises from production. False prosperity may be engendered by the destruction of wealth and the restriction of production; artificial prosperity stems from rising prices and inflated values. It is socially desirable that prosperity be widely diffused throughout all groups in society and well stabilized over various periods of time.

The basis of prosperity lies in a rich environment, which is not congested by a dense population. Prosperity is conditioned also by the state of the arts; it is stimulated by inventions and discoveries, particularly by improvements in industrial techniques.

The chief reason for the great modern increase in production is power machinery. A new industrial revolution has been taking place in the United States within recent years. Its main features have been increased mechanization and specialization, mass production, scientific management, and industrial chemistry.

The best measure of national prosperity is the real per capita income of a people. The national income of the United States has varied from periods of prosperity to those of depression. Despite these cyclical variations, the long-run or secular trend of our per capita real national income has been upward. The United States is relatively prosperous as compared with other and less fortunate countries.

Production can be measured in physical units or in value units. The physical production of the United States has increased more rapidly than its population. Our expanding volume of production has become relatively more industrial and relatively less agricultural. Productivity is rate of production; it is expressed in production per man-hour. Our productivity has increased even more rapidly than our production. The results are increased prosperity and leisure.

America's capacity to produce is still greater than its actual performance. Even so, the national income has been adequate to provide a minimum standard of living to all our people; it has not been large enough to furnish luxury and leisure for all.

Questions for Discussion

1. *a.* What do you understand by economic prosperity?
   b. Explain the significance of economic prosperity as a social ideal.
2. *a.* Distinguish between wealth and welfare.
   b. Distinguish between wealth and income and define each.
3. What evidence is there to show that the national wealth of the United States has been increasing? Indicate necessary refinements and qualifications.
4. What factors make you skeptical and critical of all estimates of the national wealth in monetary terms.
5. What evidence is there to show that our national income has been increasing? Indicate necessary qualifications and refinements.
6. What do you regard as the best measure of national prosperity. Why?

7. Distinguish real prosperity from false and artificial prosperity.

8. What do you regard as the basic factors in an explanation of the prosperity of the United States? Explain their significance.

9. *a.* What do you understand by the new industrial revolution in the United States?

b. Outline some of its most distinctive and important features.

c. Compare with old industrial revolution in England.

10. Why is the business cycle a serious labor problem?

11. How would you determine the adequacy of the national income to afford a decent standard of living for all families? What are the general conclusions and implications?

12. Can there be war prosperity? If so, how? If not, why not?

Topics for Investigation

1. National wealth or income of the United States and some other important nations before and after the First World War.

2. National wealth and income of the United States before and after the depression of 1929 to 1933.

3. National wealth and income of belligerent nations on the eve of the Second World War.

4. Methods used by the National Bureau of Economic Research in its studies of the national income and its distribution.

5. Unused plant capacity in American industry.

6. Increase in industrial productivity.

7. Industrial production during depression and recovery.

8. Agricultural surpluses: origin and disposition.

9. War prosperity and inflation.

10. Prosperity reserve for postwar readjustment of industry.

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CHAPTER VI

THE IDEAL OF EQUALITY OF OPPORTUNITY AND THE FACTS OF ECONOMIC INEQUALITY

DIVISION OF NATIONAL WEALTH AND DISTRIBUTION OF NATIONAL INCOME

1. Platitudes and Realities.—"We hold these truths to be self-evident, that all men are created equal," wrote Thomas Jefferson, author of the Declaration of Independence. Nevertheless, he was the owner of Negro slaves and far richer in worldly goods and intellectual attainments than most men of his time. In order to describe contemporary life more correctly, he should have qualified his statement somewhat as follows. "Limited political progress toward the ideal of equality before the law seems to have been made by some sane, free, adult, male, white citizens possessed of certain property rights." In short, all men were not born equal then; and they are not born equal today, despite sweeping generalities of many prominent statesmen.

2. Types of Inequality.—Inequalities may be divided into those which are biologic or inherent and those which are social or acquired. From a biologic point of view, no two individuals are born alike, for variation is the law of nature. Physical characteristics, such as color of skin, eyes, and hair, size and shape of features, strength and agility of muscles, clearness of sight and hearing, and soundness of vital organs, differ from individual to individual. Although the measurement of intelligence is in its infancy, it is obvious that all individuals vary as to kind and degree of inherent mental ability. Although care of health and cultivation of mind can do wonders, nature gives us all different starting points for the race of life. Although it is possible to improve the physical stock of the race through the gradual elimination of degenerate strains, it is alike impossible and undesirable to eradicate biological differences among peoples and inherent inequalities among individuals.

Inequalities acquired from the social environment or the economic order can be reduced; in this way progress is made toward equality of opportunity. Thus the abolition of taxation without representation and the development of universal suffrage made for political progress toward fewer inequalities in governmental rights and privileges. The transition from status to freedom of contract, as illustrated by the gradual change from serfdom to free peasantry in Europe and the sudden abolition

of Negro slavery in America, reduced social inequality. The development of our public-school system and the increased proportion of boys and girls going through high school illustrate the modern advance toward greater equality of opportunity in education.

In recent years the forces of social unrest have concentrated on economic inequalities, represented by contrasts in industrial opportunity or in control of private property and by glaring differences in the ownership of wealth or in the enjoyment of income.

3. Antiquity of Economic Inequality.—Concentration of wealth has been common to different countries and to various ages in the world's history. An interesting comparison might be drawn between American conditions toward the close of the nineteenth century and those of England a century earlier. In both cases, great fortunes were founded by the establishment of large industries at home and by the extension of commerce and investment abroad. But in spite of the increased national prosperity, achieved by increased production and wider markets, great economic inequalities, widespread social distress, and glaring poverty continued in both countries throughout these periods of expanding national prosperity.

Economic inequality, indeed, is older than modern industrialism, as illustrated by England and the United States. It characterized the advent of capitalism during the transition from medieval to modern times. The discovery of the Americas was followed by the conquest of peoples, as well as of continents. Spanish *conquistadores* and English merchant princes made huge fortunes while Indians were exterminated, Negroes were enslaved, and masses of whites were exploited in Europe or indentured for service in the American colonies.

The student of history will find that economic inequality even antedates capitalism. Medieval society was characterized by the social inequalities of feudalism and serfdom; there were numerous peasants' revolts against intolerable living and working conditions. Ancient civilizations, including "the glory that was Greece and the grandeur that was Rome," rested on an extensive system of slavery and the exploitation of the masses by the classes.

Striking comparisons have been drawn between modern America and ancient Rome. Economic expansion in both cases was accompanied by increasing inequalities in wealth. Individual poverty likewise persisted in spite of the growing national prosperity. Although such comparisons are interesting, they are not scientific; history never repeats itself in exactly the same way. Nevertheless, these analogies give historical perspective to the persistent problem of economic inequality.

The story of civilization is a painful record of the slow accumulation of national wealth by the labor of the many, accompanied by a concentra-

tion of control in the hands of the few. Man's inhumanity toward man is older than any written records. However, it is probably less now than ever before. On the other hand, this evidence of progress should not lull us into a passive acceptance of existing exploitation and inequality, for they are less understandable in an age of enlightenment than in one of ignorance; they are less excusable in a surplus economy of plenty than in a deficit economy of want.

4. Persistence of Economic Inequality.—Economic inequality may be regarded as natural in ancient societies, permeated by a caste system or undermined by the institution of slavery. But the change from status to freedom of contract has not eliminated glaring economic inequalities. Indeed, the development of modern capitalism and industrialism has created new fortunes from commerce and manufacture.

Business executives and captains of industry have dominated our pecuniary civilization as did barons and landlords their earlier agrarian cultures. Hence it has been contended that ancient aristocracy has merely been replaced by modern oligarchy or plutocracy, a military feudalism by a financial feudalism, and absentee landlordism by absentee capitalism.

The economic development of new countries has been characterized by dollar diplomacy and by the creation of huge fortunes from the ruthless exploitation of their natural resources. Industrialization has been featured, likewise, by the emergence of railroad magnates, packing princes, beer barons, and match kings.

The exploitation of the United States under a system of individual enterprise and a philosophy of *laissez faire* has been rapid but wasteful of both natural and human resources. It converted a virgin continent into an industrial empire, but all the children of all the people have not shared equally in their rich natural legacy. Our subsequent analysis of the ownership of the national wealth and the distribution of the national income of the United States will show that great economic inequalities have existed in this democratic country.

5. Forces Making for Economic Inequality.—The capable student can easily discover for himself numerous specific causes of economic inequality and of the concentration of wealth into huge private fortunes. Among them would appear generous governmental subsidies to railroads and the capitalization of exclusive franchise rights previously given public-service corporations. It should be remembered, however, that railroads and other public utilities were at first regarded as highly speculative ventures. New industries, if successful, are the sources of great profits and large fortunes. The earlier development of the railroads and other utilities has been followed by the later development of the airplane, automobile, telephone, radio, and motion-picture industries.

Perhaps our dynamic and individualistic economy requires the incentive of large and immediate profits to attract capital and enterprise into new and risky ventures.

Another source of great fortunes lies in our rapidly increasing land values, particularly in growing cities. The essential elements of success here have been sagacity and patience, rather than inventive genius or arduous productive effort. This source of huge fortunes can be illustrated by the early purchase and the long-continued holding of land on and about Manhattan Island by John Jacob Astor and his descendants.

Wars represent another source of private profit and economic inequality. Fortunes have been made from the possession or acquisition of certain commodities essential for military or civil consumption. Wars are generally accompanied by inflation; rising prices make possible profiteering by a few, while the great majority suffer from higher costs of living.

Speculation in commodity markets or stock exchanges has created large fortunes for a few successful individuals who have been peculiarly shrewd or fortunate. Sometimes they have resulted from such unsocial practices as cornering the market or manipulating prices. Huge profits have been made also by financial promotion, often of sound enterprises in which control has been secured, but occasionally by underwriting questionable ventures which have been unloaded on the gullible public. The United States does not permit a national lottery, but Wall Street has been a fairly acceptable substitute. A few high prizes divert attention from the numerous blanks.

Industrial combinations have increased economic inequality. These monopolies have represented both the economic benefits of large-scale production and the pecuniary advantages of combinations in restraint of trade. The development of the trusts in the closing decades of the past century and the opening years of the present century resulted in the creation of huge fortunes in oil, steel, tobacco, aluminum, and numerous other commodities.

The development of trustee devices has maintained the grip of the "dead hand" and continued from generation to generation some of these large fortunes.

6. Forces Reducing Economic Inequality.—A list of forces making for less economic inequality would comprise all those influences which tend to restrict or to negate the causes of concentration in the ownership of wealth, just described. Among them would be the more effective regulation of all large corporations, industrial combinations, and public utilities; better supervision of security issues and of speculation in them; the elimination of wars, inflation, and the dizzy dance of the dollar; the

social absorption through taxation of the "unearned" increments from naturally or socially created land values; and the public conservation of natural resources.

The general acceptance of the concept of private property as a public trust, the development of profit-sharing schemes and labor copartnership, the promotion of thrift, saving and cooperation, the spread of effective but responsible collective bargaining, and any practices strengthening the economically weaker elements in the community tend to lessen economic inequality and to check the concentration of wealth. The extension of social insurance programs from workmen's compensation to old-age pensions and unemployment insurance, as provided in the Social Security Act of 1935, will lessen industrial insecurity. The further decrease of child labor and the continued increase of educational opportunity for all young persons would make for greater industrial and social democracy.

Taxation plays an important part in the reduction of economic inequality. The principle of progression now bears heavily on large incomes. Confiscatory death duties on huge fortunes dissipate them after several generations.

Any such list of forces is neither final nor complete. The student should use it merely as a point of departure for his own independent thinking.

7. Economic Effects of Economic Inequality.—There are many reasons why less inequality of income is desirable. They may be classified arbitrarily, but conveniently, as economic, social, political, and philosophical arguments; this order will be followed in the present discussion.

Production is determined by effective demand, not by potential desire. Economic demand may be defined as a desire which is accompanied by sufficient purchasing power to make itself felt. Only if incomes were evenly distributed throughout society could it truthfully be said that production is determined by the wants of all consumers. Under the present regime, glaring economic inequalities make it profitable for producers to satisfy the slightest whim of the wealthy and to ignore the pressing needs of the poor.

Demand, rather than desire, determines not only the character of production, but also the channels of exchange. Thus, during a great famine in China, that country exported eggs to America. The human need for food was greater in China, but the economic demand was greater in the United States because of its larger purchasing power. Similarly, generations ago famine-stricken Ireland exported grain to more prosperous England, in response to market demand instead of social need.

Among various economic groups within a nation, a similar situation exists. The rich consume delicacies while the poor lack the necessities of life. Pleasure yachts may be produced at a time when there is a serious housing shortage. Thus the quantitative distribution of the national income determines the qualitative character of production.

Many individuals who are not socialists accept their economic ideal of the production of necessities for all before luxuries for a few. Although this ideal requires the reduction of economic inequality, it does not necessitate complete economic equality or the collective ownership of the instruments of production. It is socialistic, but it is not socialism.

The principle of diminishing utility states that the enjoyment derived from the consumption of a particular economic good declines after a certain point has been reached in the consumption of increasing units of that good. The small boy eating hot cakes may seem to have unlimited capacity, but sooner or later the point of diminishing utility is passed. Likewise, an additional automobile has less want-satisfying power to its owner than the first.

The wasteful operation of the principle of diminishing utility is mitigated to some extent by the great variety of economic goods which we now enjoy. When the utility of more clothes or another automobile becomes small, the wealthy individual can spend his income in other ways. Nevertheless, the dollar of the poor man will go for goods representing more utilities to him than the expenditure of the dollar of the rich man, whose most pressing needs have already been met. Hence a less unequal distribution of purchasing power would result in an increase in consumption utilities, even without an increase in the national income.

Expensive changes in fashion might be reduced, if the income of all consumers were more nearly equal. The demand for necessities is relatively stable. It can be anticipated with a smaller margin of error than can the demand for luxuries. Hence this change in the character of our real national income would lessen some of the wastes of our present individualistic economy.

Economic inequality is charged not only with misdirection of production, but also with overinvestment and underconsumption. Hence it is viewed as an important causal factor in business depressions and the wide swings of the business cycle.

8. Other Effects of Economic Inequality.—Great differences in income are productive of social instability as well as economic waste. Inadequate wages cause subnormal planes of living, while swollen profits permit luxurious leisure. Poverty and riches existing side by side have always been a fruitful cause of social unrest. The palaces at Versailles were erected by peasants who lived in huts. Even in democratic America, nearly every large city has had exclusive residential areas in its suburbs but crowded tenements in its slums.

Economic inequality results in social stratification and the formation of noncompeting economic groups. Status represents a condition fixed by birth, as compared with freedom to choose one's own occupation. Although slavery, a caste system, and inherited titles do not exist in modern America, the inheritance of large fortunes permits the persistence of economic and social classes; it prevents complete equality of opportunity.

Economic inequality may have serious political effects. Large fortunes may result in the corruption of governmental machinery and in the exercise of an undue influence on public officials. The open or secret miscarriage of justice may result. A great national income and its flagrantly unequal distribution may convert a democracy into a plutocracy. Such was the evolution of ancient Rome.

> Ill fares the land, to hastening ills a prey,
> Where wealth accumulates and men decay.

There are also ethical objections to inequality of income. On the basis of abstract justice, why should one individual receive an enormous income, but another a pitifully small one? This question assumes, of course, that both individuals are economic producers and that each produces according to his ability and opportunity.

Communists have adopted the slogan, "from each according to his ability, and to each according to his need." Such an idealistic analysis of production and distribution is beset with certain practical difficulties. If one's income were to depend on the size of his family, there would be a financial incentive for the biologic reproduction of children, instead of an economic stimulus for the production and conservation of goods with which to maintain one's self and his family. Professor Carver[1] points out the danger of this "spawning process" under communism; he extols the virtues of thrift and industry, as developed under our capitalistic system.

Finally, the student of social problems must always keep in mind that neither one's environment nor his heredity is of his own making. Prince and peasant have merely been dropped into different social settings. The fact that one individual is born with an excellent physical constitution or with exceptional mental ability, whereas another individual is born with some serious physical defect or even with feeblemindedness is no merit or fault of his own. This is as true of one's social heritage in property and position as it is true of his physical heredity in body and mind. Curiously enough, however, many people are proudest of those personal characteristics for the possession of which they themselves are least responsible, for which they are chiefly indebted to their parents and more remote ancestors. Society should not reward children

[1] CARVER, T. N., "Essays in Social Justice."

financially for their wise choice of good parents any more than it should reward parents financially for their propagation of numerous children.

9. Conspicuous Consumption.—It has been contended that the manner of consumption of one's income is as important as its size and source. It is apparent that some large fortunes have been squandered and dissipated, while others have been put to good use.

Imitation is a powerful and pervasive social influence. Each social group looks longingly at the standard of living of the next higher income group. The masses tend to follow the classes in fads and fashions, so far as their smaller expenditures permit.

The standards of consumption which are indulged in by the so-called "social set" are often wasteful and offensive. The central purpose may be the mere display of idleness and wealth with the consequent implication of social superiority. Economic success, demonstrated by ostentatious consumption, now gratifies the same human instincts of self-assertion formerly satisfied by military success on the battlefield. Triumphs and trophies may take different form, but they continue to be displayed conspicuously by the victorious or successful groups.

This situation has been described by Veblen[1] as the "conspicuous consumption of the leisure class." Its origin lay in the fact that conquered peoples were enslaved and forced to work, whereas the conquerors lived in leisure. Even today, the possession of a particular commodity or the consumption of a certain service may be sought, not because of its intrinsic utility to the individual consumer, but because of the social prestige which is attached to it and reflected from it. A successful individual may like a small automobile and may enjoy driving it himself, but the possession of an expensive limousine and the employment of a smartly appareled chauffeur are blatant manifestations of individual success and conspicuous evidence of social superiority. Going to the opera cannot gratify a love of music and drama if it does not exist in the operagoer, but it does afford an excellent opportunity to display beautiful clothing and expensive jewelry. Many American executives have loved the game of business; some have preferred to "die in harness" rather than to "rot in leisure." Their wives, however, have carried on the traditions of the leisure class, demonstrating the financial success of their husbands in conspicuous idleness and in competitive consumption on their persons and in their homes.

The elaborate social functions of certain exclusive clubs and social sets still recall the conspicuous consumption of ancient Roman banquets. In the background of each picture is the sinister shadow of the underprivileged masses. The close relation of economic inequality and conspicuous consumption to social unrest can be seen in such mass

[1] VEBLEN, THORSTEIN, "Theory of the Leisure Class."

movements as avenging crowds in the streets of Paris during the French Revolution and overwhelming majorities at the polls in the American New Deal. In both illustrations the attack by forgotten men was directed against real or fancied "princes of privilege," in the one case by violent revolution and in the other case by orderly evolution.

10. Private Fortunes as Public Trusts.—Andrew Carnegie[1] expressed by word and deed his ideal of individual fortunes as public trusts. His own life was simple and his tastes were frugal. He returned to society a large portion of his income in numerous bequests for civic purposes. His legacy in the form of public libraries is scattered in cities and towns all over the United States. John D. Rockefeller also made millions, but likewise gave away millions. Public health and education projects all over the world received his rich and wise benefactions.

Private fortunes as public trusts represent collective consumption on individual initiative. It is difficult to overemphasize the social value of such wise donations. Society might not have provided these services through collective action, just as the individual enterprisers might not have produced satisfactory commodities without the lure of private profits.

Such a policy, however, has been criticized as undemocratic in spite of its generous motive and wise purpose. As it represents private philanthropy instead of public expenditure, it has been stigmatized as benevolent despotism or capitalistic feudalism. Such civic donations divert attention from the unsocial origins of some large fortunes. All consumers have paid the bills in the purchases of the products of the rich donor, but they have not been permitted to say how the profits should be spent. Such have been the criticisms of rich men's philanthropy and the indictment of large fortunes as public trusts.

11. Survival of the Fittest—a False Analogy.—It is sometimes alleged that economic competition affords an analogy with the biological struggle for existence. It is further assumed that the force of natural selection results in the survival of the fittest in business and the elimination of the unfit, or, rather, their relegation to the poverty group. Such an analogy is incorrect and misleading. In the first place "survival of the fittest" is a rather meaningless expression, because the fittest are merely those most in harmony with their environment. The fittest are not necessarily the best, *e.g.*, a frog rather than a horse in a marshy environment, a sinner rather than a saint in competition with unscrupulous rivals.

In the second place, the biological struggle for existence is natural, and each individual or species tends to survive or perish according to the presence or absence of favorable traits. But social evolution has produced customs and laws which may be meritorious but which interfere

[1] CARNEGIE, ANDREW, "Gospel of Wealth."

with the operation of the principle of natural selection. Inheritance laws and the institution of private property place barriers between many people and a ruthless struggle for existence. Some individuals may be supported in luxury and leisure who are unwilling to earn, or incapable of earning, their own living. Other individuals, however, enter the economic struggle with handicaps represented by the burden of poverty and lack of education. The economic struggle is neither natural nor equal.

Because of the existence of numerous fortuitous circumstances, the assumption of superiority on the part of a successful business man is not always justifiable. He may have been fortunate rather than sagacious. Again, individual ability should not be evaluated apart from social purpose. Mere cleverness of itself is not sufficient to achieve or to warrant success; it must be exerted in a productive fashion. Although economic society is competitive, the skill of the pickpocket or the strength of the highwayman is not rewarded but punished. Society has set up certain rules of the game and has attempted to eliminate some of the most predatory methods of achieving success, even in a highly competitive economy.

At the present time, there are numerous neutral or socially undesirable ways of making private profits. It is difficult in a dynamic society for the forces of social control to keep abreast of changing conditions and to express themselves immediately in an adequate fashion. It takes time to arouse public opinion and to crystallize it into effective legislation. In the meantime, clever individuals may create fortunes in economically unproductive and socially undesirable ways. Illustrations are monopoly profits, gambling on the stock exchange, and speculation in real estate values. Economic success does not always measure accurately economic productivity along socially desirable lines.

12. Acquisition According to Productivity.—This notion was tersely stated by Captain John Smith of the Virginia colony when he said that only those gentlemen who worked should eat. In every primitive community there is little bread of indolence for a leisure class, practicing idleness, vagrancy, and conspicuous consumption. But with the transition from a deficit economy of scarcity to a surplus economy of plenty, a leisure class develops and questions of distributive justice arise.

It is easy to say glibly "acquisition according to production," but to determine economic productivity and to measure it accurately are not so easy. Types and degrees of social desirability are still harder to fashion.

Society may well refrain from setting rigid limits to a man's ability to acquire wealth. It is impossible to evaluate the social contribution of the discoverer of anaesthetics for surgical operations; it is difficult to measure the economic production of the inventor of the steam engine, the

telephone, or the radio. One would hesitate to restrict the rewards of such scientists and inventors who have contributed so much to human welfare and social progress. Indeed these individuals have rarely received pecuniary compensation commensurate with their social or economic contributions; their real rewards have come from social recognition and self satisfaction. The great fortunes represented by such discoveries and inventions have often gone to financial promoters instead of to the inventive geniuses themselves. In attempting an answer to the old and difficult question, "How much is a man worth?" we should strive to make his individual acquisition bear some relationship to his economic production in a socially desirable activity.

13. Equality of Opportunity.—Equality of opportunity expresses division of labor through biological differences in individual aptitudes. It seeks economic motivation through pecuniary rewards for personal performances instead of personal possessions. This ideal would permit each individual in society to develop to the limits of his inherent ability and to assume a position of responsibility according to his natural gifts, acquired training, and demonstrated accomplishments.

Equality of opportunity would minimize social inequalities, which reflect fortunate or unfortunate economic environments rather than different native abilities. Every individual would start the race of life without competitive advantages or disadvantages except those inside himself; there would be few artificial handicaps. Unless individual initiative is to be killed, all participants should be permitted to progress according to the inherent powers with which nature has endowed them.

A flat equality, which certain writers falsely interpret as democracy, would result in injustice. But injustice results now when positions of responsibility and high salary are filled by mediocre individuals, when men of superior ability are forced to remain in the lower economic groups because of a lack of education or of industrial opportunity. Gray's famous "Elegy in a Country Churchyard" contains intimations of existing inequality of opportunity in its references to a "mute, inglorious Milton" and a "Cromwell guiltless of his country's blood." Its beautiful lines have been frequently quoted, but their revolutionary implications have been blissfully ignored.

A truly democratic society must be selective. It must maintain a differentiated educational system in which the type of education depends on the ability of the student rather than on the income of his parents. As admission to the professions requires a long period of preliminary preparation, many promising children are now forced to leave school as soon as the law permits them to do so. Although a genius will triumph over all obstacles and rise out of blind-alley occupations, such widely advertised cases are relatively rare. Scant attention is paid to the more

numerous cases of individuals of no conspicuous ability who are kept in school indefinitely by their wealthy parents and who are later placed in lucrative positions.

Equality of opportunity involves the removal of artificial obstacles, for it would compel every individual in society to stand on his own feet. It would frankly recognize biological differences by permitting each individual to find his own level in economic society. It would involve changes in individual attitudes and social institutions. Although the charges of confiscation and socialization have been made, some necessary modifications of, and limitations on, the institution of private property have already been made. The progressive income- and inheritance-tax laws of today would have been considered revolutionary a century ago.

Equality of opportunity recognizes the competitive character of modern economic society and the importance of individual acquisition as an economic stimulus. But it seeks to reward the individual's own achievements more than those of his parents. It strives to correlate more closely individual acquisition with economic production.

Although the pecuniary interest is powerful, it is by no means the only strong incentive. Socialists, for illustration, would substitute social esteem and popular recognition for the profits motive. Equality of opportunity, however, does not substitute the laurel wreath for the purse of gold as an economic stimulus, but it does seek to reduce the gains of unscrupulous cleverness and the advantages flowing from the mere accident of birth.

14. Our National Prosperity Honeycombed with Economic Inequality and Industrial Insecurity.—The House of Plenty and the Hovel of Want have stood side by side in democratic America. Poverty has persisted in spite of the increased productivity of industry. Periods of prosperity have been succeeded by serious depressions as the business cycle has run its seemingly endless course. In short, American prosperity has been confined to particular groups and to limited periods.

Money wages, and even real wages, have been higher in the United States than in most European countries. On the other hand, social insurance was accepted earlier abroad, where the worker enjoyed greater industrial security than in America. The lower wages of European workers were ameliorated considerably by their relatively greater industrial security, due to the wider and earlier prevalence of social insurance of various kinds.

15. Industrial Unrest Caused by Economic Inequality and Industrial Insecurity.—A considerable amount of social unrest can be traced directly to economic inequalities among various groups of American society and to the industrial insecurity of our workers.

Conservative trade unionists accept capitalism and the wage system, but they strenuously attempt to raise wages by various weapons of collective bargaining. Socialists and syndicalists, however, contend that extreme economic inequalities will always persist as long as our present capitalistic system endures. Consequently, they seek the elimination of capitalism, many socialists by evolution and parliamentary methods, and most syndicalists by revolution and violent action.

In spite of the terrible experiences of the great depression following 1929, conservative thinkers were pleading for a maintenance of "rugged individualism." From the opposite extreme came a demand for the socialization of industry and the elimination of economic inequalities. Between so-called "economic Bourbons" and extreme "radicals" were middle-of-the-path "liberals," who hailed the New Deal as social progress toward decreased economic inequality and increased industrial security. They believed that capitalism should be reformed but not destroyed. They would retain individual enterprise and the institution of private property, but they would rigorously restrict the right of inheritance and vigorously apply the principle of progression in taxation. Heavy death duties on huge estates and steep surtaxes on large incomes would be scaled in such fashion as to reduce, but not to eliminate, economic inequalities. High and progressive taxes, therefore, were imposed to combat the depression and to relieve distress. Still heavier progressive taxes were necessitated by the Second World War. Unprecedented funds were painfully raised and promptly expended. As we shall now see, the former problem of economic inequality was greatly reduced by the successive catastrophes of domestic depression and foreign war.

16. Unequal Division of Our National Wealth.—In studying economic inequality, or any other social problem, it is prudent to get the facts in the case. Generalizations must be supported by statistics. Let us, therefore, see how the great wealth and income of the United States have been divided among our people.

One of the first comprehensive analyses of the division of the national wealth of the United States was made in 1910 by Dr. W. I. King.[1] His conclusions were based on a survey of decedents' estates over a period of years in Massachusetts and Wisconsin, which two states were fairly typical and had rather complete records. In a revision of these early estimates Dr. King[2] described as follows the division of wealth in the United States before the great depression of 1929 to 1932.

The "rich," owning $50,000 or more of wealth, 2 per cent of the people, own 40 per cent of the total wealth of the country.

[1] KING, W. I., "The Wealth and Income of the People of the United States," 1915.

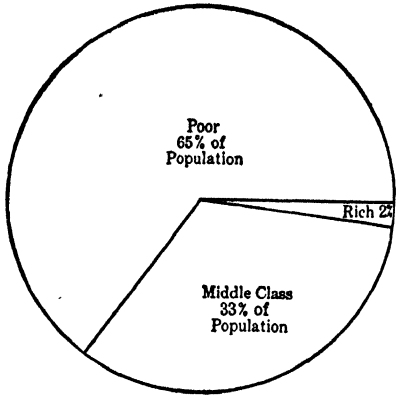
[2] KING, W. I., "Wealth Distribution in Continental United States," *Journal of American Statistical Association*, 1927.

The "middle class," owning from $3,500 to $50,000 of wealth, 33 per cent of the people, own 45 per cent of the total wealth of the country.

The "poor," owning less than $3,500 of wealth, 65 per cent of the people, own 15 per cent of the wealth of the country.

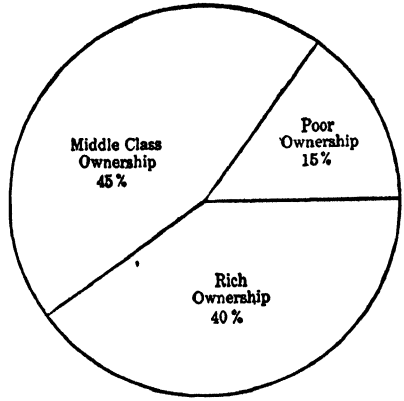
This unequal division of our national wealth is pictured in Chart 20. It illustrates the problem of economic inequality before the great depression.

A. Division of Population According to Wealth in United States in 1927



According to 1927 estimates of Dr. King, rich group includes individuals owning $50,000 or more wealth; the middle class includes individuals owning from $3,500 to $50,000 of wealth; and the poor include those individuals owning less than $3,500 of wealth.

B. Division of Wealth According to Population in United States in 1927



According to 1927 estimates of Dr. King, rich individuals (2 per cent of population) own 40 per cent of the national wealth; middle classes (33 per cent of population) own 45 per cent of the national wealth; and poor individuals (65 per cent of population) own 15 per cent of the national wealth.

Chart 20.—Unequal division of national wealth of the United States.

17. Distribution of National Income among Individuals.—The National Bureau of Economic Research carefully studied the distribution of the national income in 1918, a year of so-called "war prosperity." The income-tax returns for that year were of invaluable assistance, but the investigators were forced to supplement this information by original research among those individuals whose wages were too small to necessitate the filing of income-tax returns.

In 1918, about 39 per cent of all individuals receiving incomes had annual incomes of less than $1,000; approximately 72 per cent of all individuals receiving income had less than $1,500; and about 86 per cent of all income receivers had less than $2,000 a year income. Finally, this 86 per cent of all income receivers absorbed only 60 per cent of the total national income, a disproportionately small share.

On the other hand, the most prosperous 1 per cent of those receiving incomes were receiving 14 per cent of the national income, the most prosperous 5 per cent were receiving nearly 26 per cent, the most prosper-

ous 10 per cent were receiving nearly 35 per cent, and the most prosperous 20 per cent of the total number of income receivers were receiving about 47 per cent of the total national income, a disproportionately large share.

This early study of income revealed in striking fashion the existence of glaring economic inequalities. These findings indicated that, while our national income was fairly large, it was divided among the people of the United States in a very unequal manner. They showed that the maintenance of comfortable standards of living has been a problem of maldistribution as well as one of insufficient production. Individual prosperity and national welfare have been conditioned not only by the existence of an adequate national income, but also by its more equitable distribution.

The annual reports of the Treasury Department of the Federal Government give information concerning incomes of those individuals and corporations making returns under the Federal income-tax law of each year. In 1928, a year of national prosperity just before the great depression, about 4 million individuals, out of a group of 50 million gainfully employed persons, filed a tax return which was compulsory for married people receiving over $3,500 a year and single people receiving more than $1,500.

Within this relatively small group of individuals who filed income-tax returns for 1928, over a million, or about 25 per cent of the entire group, reported incomes under $2,000; almost 2 million, or almost 50 per cent, reported incomes under $3,000; and over 3 million, or over 75 per cent, reported incomes under $5,000. The total incomes reported by these three million individuals, constituting three-fourths of the total income-reporting group, constituted slightly less than one-third of the total amount of individual incomes reported.

At the other extreme were 511 individuals, as compared with only 152 in 1918, who reported an annual income for 1928 of $1,000,000 or over; almost 1,500 individuals, as compared with 521 in 1918, who reported an annual income of $500,000 or over; and about 16,000 individuals, as compared with 7,500 in 1918, who reported an annual income of $100,000 and over for 1928. From this fairly authoritative but limited information, it would appear that the problem of economic inequality in 1928 was not less but more acute than in 1918.

Chart 21 pictures by a Lorenz curve the disproportionate distribution of income among those individuals who reported under the Federal income-tax law for 1928. It will be found on page 122.

A similar report of the Treasury Department for 1935 revealed the situation in the period of recovery after the great depression. Whereas for 1928 about 4 million individuals filed income-tax returns, for 1935 over 4½ million individuals did so. By 1935 exemptions had been

reduced for married persons from $3,500 to $2,500 and for single persons from $1,500 to $1,000. But even with this broadening of the base of income taxation, the number of individuals filing income-tax returns for 1935 was still only about 10 per cent of all those gainfully employed.

Within the still relatively small group of individuals who filed income-tax returns for 1935, over 2 million, or about 45 per cent, reported incomes under $2,000; over 3 million, or about 70 per cent, reported incomes under $3,000; and about 4 million, or almost 90 per cent, reported incomes

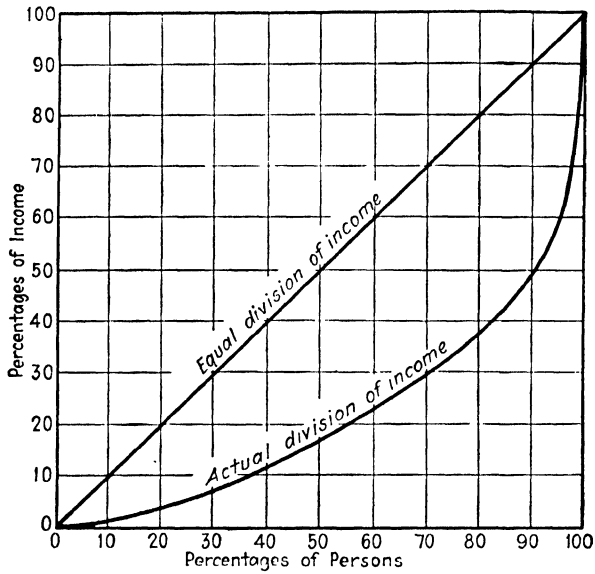


CHART 21.—Equal and actual division of the national income.

A Lorenz curve based on figures of the Treasury Department for income tax returns made by individuals for the year 1928. The bulge from the straight diagonal indicates the disproportionate distribution of incomes, even among those individuals whose incomes were sufficiently great to subject them to that tax.

under $5,000. The total incomes reported by these 4 million individuals, constituting about 90 per cent of the entire group of individuals reporting income for 1935, constituted only 60 per cent of the total amount of all individual incomes reported in that year. The half million individuals who received $5,000 a year or over constituted the remaining 10 per cent of income-tax reporters; they received over 40 per cent of all income reported by individuals.

In 1935, there were 41 individuals, instead of 511, as in 1928, who reported an annual income of $1,000,000 or over; 150 individuals, instead of almost 1,500, who reported incomes of $500,000 or over; and slightly more than 2,600 individuals, instead of almost 16,000, who reported annual incomes of $100,000 or more. The ravages of the great depression and the inroads of progressive taxation had cut down the number of

individuals in the higher income brackets in the years between 1928 and 1935. Economic inequality had been reduced, but not eliminated.

The outbreak of the Second World War stimulated a national defense program within the United States. Taxes of unprecedented magnitude were levied; an excess profits tax was imposed on industry; the corporate income-tax rate was raised; exemptions on individuals were lowered; normal income-tax rates and surtaxes on individual incomes were raised. In short, strenuous efforts were made to take the profits out of war, to prevent the creation of war fortunes, and to check tendencies toward inflation. How successful these efforts may be remains to be seen. It is clear, however, that these drastic tax measures did raise an enormous amount of revenue and took unprecedented shares of national, corporate, and individual incomes. They also exerted a great leveling influence on society by eliminating such glaring economic inequalities in the distribution of the national income as existed in past years.

18. Maldistribution of National Income among Families.—The problem of economic inequality is illustrated by the maldistribution of the national income among families, as well as among individuals. The National Resources Committee, in its report submitted to President Roosevelt in September, 1938, revealed that one-third of all American families and individual consumers had incomes of less than $780, and that two-thirds had incomes less than $1,450, in the fiscal year 1935–1936. Indeed, the average family income of the poorest third of the nation was found to be only $471. Nevertheless, 70 per cent of this submerged third of our people, so it was claimed, were not on relief during that year. At the other extreme of the economic scale was a small group, constituting between 2 and 3 per cent of all "consumer units," who received annual incomes of $5,000 or over. The group whose average family income for the fiscal year 1935–1936 ranged from $10,000 on up to the millions constituted less than 1 per cent of the population; nevertheless the combined income of its members represented over 13 per cent of the entire national income. The following quotation summarizes the most important findings of the National Resources Committee on the distribution of the national income among the family units in the United States.

> The 29,400,300 families in the population during 1935–1936 were by far the most important group of income-spending units, including nearly 91 per cent of the total body of consumers.
>
> The distribution of these 29 million families by income level is as follows: 14 per cent of all families received less than $500 during the year studied; 42 per cent received less than $1,000, 65 per cent less than $1,500, and 87 per cent less than $2,500.
>
> Above the $2,500 level there were about 10 per cent with incomes up to $5,000, about 2 per cent receiving between $5,000 and $10,000, and only 1 per cent with incomes of $10,000 or more.

When the incomes of all families are added together the aggregate is approximately $48,000,000,000. The shares of this total income going to the various income groups are as follows:

The 42 per cent of families with incomes under $1,000 received less than 16 per cent of the aggregate, while the 3 per cent with incomes of $5,000 or more received 21 per cent of the total. The incomes of the top 1 per cent accounted for a little more than 13 per cent of the aggregate.[1]

19. Unequal Diffusion of Property Incomes.—Small incomes consist chiefly of wages and salaries. Large incomes consist chiefly of incomes from property rights, such as rent, interest, and profits. Investigation

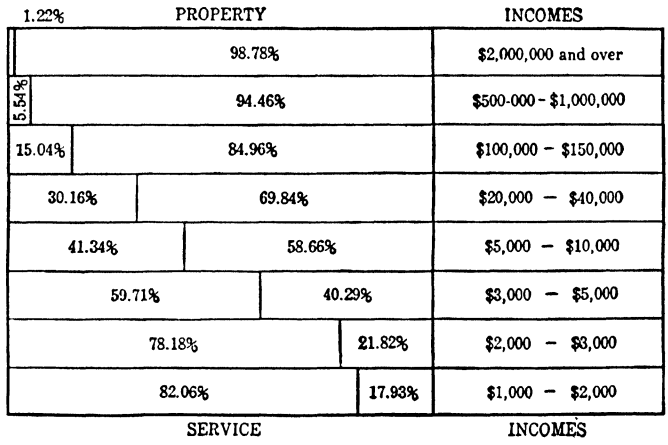


CHART 22.—Sources of income of various economic groups. (*Adapted from O. F. Boucke, "Principles of Economics," vol. 2, p. 180.*)

Professor Boucke's table is a condensation of the estimates given in "Statistics of Income," published in 1922 by the Commissioner of Internal Revenue of the United States. Professor Boucke has listed separately the percentages of profits, rentals, interest and investment income, and dividends in profits, all of which items have been combined in the above table to give the total percentage of the income which appears to be representative of property rather than service income. The figures are based on income received in 1920.

has shown that the portion of the national income going to property is fairly large and also that it is concentrated in a relatively few hands.

Chart 22 expresses the relative percentages of service and property sources of incomes of individuals in different economic groups. In descending the income groups, the percentage of the total income represented by property becomes less and less until it is almost negligible. Service income constitutes almost the entire income within the lower economic groups. On the other hand, property income constitutes the chief source of income for those in the higher income groups. Although service income increases, as the income scale is ascended, its relative

[1] National Resources Committee, "Consumer Incomes in the United States," Report to President Roosevelt, 1938.

importance declines. Property income becomes absolutely and relatively more important.

The general situation is probably more acute than that illustrated in this tabular chart, for these figures include only those individuals making income-tax returns. The poorer individuals not making income-tax returns are not in this picture; this excluded group probably owns a negligible amount of property.

It seems safe to conclude that the chief source of most small incomes is service and that the chief source of most large incomes is property. A breakdown of scaled incomes between property and service shares for more recent years would probably present a picture similar to that given in Chart 22 for earlier years, even though the distribution of the national income has altered considerably.

20. Shares in Distribution.—Economists speak of the following four factors in production: land, labor, capital, and business enterprise. The share in distribution which goes to each of these factors is rent, wages, interest, and profits, respectively. Distribution is merely a valuation or pricing of the factors of production. The rate of return on each of these factors is determined by its relative demand and supply forces.

In a new country, rents are low because the supply of land is abundant compared with that of labor and capital. In an older and more densely populated country, rent absorbs a greater portion of the national income. In any given time and place, the rent which a piece of land yields its owner is conditioned by the relative scarcity, desirability of location, and degree of fertility of that type of land. Such a statement may be a partial explanation of rent, but it does not justify it, for it assumes the existence of private property rights in land.

The roundabout method of production is first to create capital or artificial producers' goods and then to produce consumption goods with the aid of this capital. The industrial revolution increased the roundaboutness of production and intensified the importance of capital. The supply of capital depends both on industry or production and on thrift or abstinence. A choice must be made between present and future goods, and this choice is reflected each year in the ratio between capital goods and consumption goods in the national income. An individual may spend his income or he may invest it, directly or indirectly, in some productive enterprise. The interest rate depends on the relative demand for and supply of capital. The justification of interest payment, however, again assumes individual ownership and saving of capital.

Profits represent an uncertain and residual share in the process of distribution. They arise from a multiplicity of causes, such as changes in prices and fluctuations in demand. They originate in the capitalistic system of private enterprise and in the dynamic character of modern

methods of production. The justification of profits under our present economic system lies in the assumption of business responsibilities and financial risks by individual enterprisers and captains of industry.

21. Earned and Unearned Income.—Attempts have been made to classify these shares in distribution as either earned or unearned incomes. Wages are paid to labor for human effort; hence they are regarded as earned income. Inasmuch as land is a natural good, rent has been attacked as an unearned income. In competitive profits there seem to be both earned and unearned elements. Monopoly profits, however, may be antisocial and contain an unearned element.

If capital is the result of saving, interest may be justified as earned income by those individuals who do the saving. Critics of the present economic system, however, argue that such is frequently not the case. Individuals who have inherited large fortunes may live luxuriously on the interest from their investments and practice little abstinence. On the other hand, low-wage groups practice great abstinence but receive little or no interest.

Although some large fortunes originated from fortuitous circumstances and unsocial practices, the founding of many small estates required labor and abstinence. Some individuals worked industriously and saved rigorously in order to accumulate the capital represented by stocks and bonds. Should society limit their right to enjoy the result of past labor and abstinence, and should it interfere with their right to bequeath this accumulated wealth to its owners' children? Again, an individual may have invested his wages in land, the private ownership of which society has condoned, and even protected, for centuries. Should this income from land be called unearned, and should the government attempt to appropriate this rent or any portion of it?

Such questions bring us face to face with economic theories of distribution and with comprehensive programs of taxation, including inheritance taxes, progressive income taxes, excess profits taxes, and the social absorption of the unearned increment from rising land values. Our present aim, however, is merely to point out the importance of the distinction between property and service incomes and some practical difficulties involved therein.

Although a sharp distinction between earned and unearned incomes is difficult to carry out in a system of taxation, a rough separation of property and service shares is common, practical, and desirable. The Federal income-tax law has granted a credit for earned income for service rendered; it has permitted the exemption of modest incomes, most of which represent wages received. The theory of ability to pay, carried out by the principle of progression, is now generally accepted in public finance. It taxes large incomes at higher rates than small incomes.

It taxes heavily and progressively unearned increments and inherited property.

22. Former Trends of Shares of the National Income.—Having outlined the four shares in distribution, let us see how great a portion of the national income goes to each. Our previous analysis of the distribution of the national income among individuals and families must now be supplemented by an analysis of the distribution of the national income among shares in distribution, each one representing a claimant in the form of its corresponding factor in production.

The study of wealth and income by Dr. King[1] attempted to divide the national income into four parts representing the four shares in distribution, *viz.*, rent, interest, profits, and wages.

The rent element, representing the income to landowners, rose steadily in the years from 1850 to 1910. Its percentage of the total national income, however, was fairly constant and constituted somewhat less than 10 per cent of the total. Although the rent share of the national income increased absolutely, it did not grow disproportionately. This study affords little proof of an assumed tendency of rent to absorb a constantly increasing share of the total national income; such, at least, was not the case in the United States between 1850 and 1910.

Interest or return on artificial capital increased in absolute amount, as did all shares. Its percentage of the total national income varied slightly during these sixty years; it ranged roughly from 10 per cent to 20 per cent of the total national income. The supply of capital increased enormously, but new demands for it were continuously experienced. Although interest rates varied from time to time and from place to place, the interest share of the total national income showed no long-run trend to decrease or to increase out of proportion to the other three shares.

Profits varied more than any other single share and fluctuated from a low point of 20 per cent of the total national income to a high point of 40 per cent. Although increasing in absolute amount, its relative portion of the total declined. This study testified to the fluctuating character of profits and also to its downward trend in the United States between 1850 and 1910.

Economists have regarded profits as the uncertain and residual share. In a relatively new country, greater incentives must be offered to attract capital and business enterprise. As the country matures, some of these uncertainties disappear. High profits are no longer necessary to induce business enterprise. Again, it would seem that rising prices are favorable to profits and falling prices unfavorable to profits.

This investigation of wages was based on the decennial census reports and on the price studies of the U.S. Bureau of Labor. Wages were

[1] KING, W. I., "Wealth and Income of the People of the United States."

discovered to have fluctuated from approximately 40 per cent of the total national income to about 55 per cent. The low level was in the first decade, *i.e.*, from 1850 to 1860. In the second decade, from 1860 to 1870, there was a rapid increase in the share of the national income which went to labor. In this period, wages jumped from less than 40 per cent of the total national income to approximately 50 per cent. From 1870 to 1890, there was a slow but steady increase to the high plateau of this study, when wages constituted about 55 per cent of the total national income. From 1890 to 1900, however, was a period of recession in which wages dropped back to about 45 per cent of the total national income, from which level they again began to rise until they reached almost 50 per cent in 1910.

Dr. King concluded that, for the entire period from 1850 to 1910, there was an increase of about 10 per cent of the total national income which went to labor. Wages therefore increased relatively as well as absolutely. Both per capita real wages and labor's share of the total national income increased. Hence the lot of the workers improved rather than retrograded in this period of sixty years.

23. Division of National Income between Property and Service Shares.—It was previously noted that the share of the national income going to property was unequally distributed and that a relatively large portion of it was concentrated in a very few hands. Now we are ready to raise the question as to how large is the property share as a whole; *i.e.*, what percentage of the total national income do rent, interest, and profits combined absorb.

The analysis of Dr. King of the four shares in the national income from 1850 to 1910 was given in the previous section. A combination of rent, interest, and profits shares represents a rough approximation of the total property income. During these sixty years it absorbed about half the national income, varying from 60 per cent in the decade from 1850 to 1860 to 50 per cent in the next decade, to 45 per cent in the two decades from 1870 to 1890, the low point of the study, rising again in the next decade to about 55 per cent, but falling again to 50 per cent in 1910. As the total property share is the residuum of the total service share, the trends of property income are just the reverse of those of wages given in the previous section.

A later revision[1] of this earlier study by Dr. King of the division of the national income between property and service shares brought this story down to the great depression of 1929 to 1933. Apparently, the fairly even division which characterized the earlier years continued until the infla-

[1] "Recent Social Trends," vol. 1, p. 230. Computed by Edwin F. Gay and Leo Wolman from estimates given by W. I. King in "The National Income and Its Purchasing Power."

tionary period of the First World War, during which the property share lost and the service share gained by between 5 and 10 per cent, after which another period of stability ensued. Section 25 of this chapter will continue through the great depression this survey of the division of the national income between property and service shares.

Looking backward over almost a century it would appear that the national income has been divided fairly evenly (not necessarily equitably) between total property shares and total service shares. Moreover, this division has been fairly constant, *i.e.*, subject to relatively few and slight changes. If these studies permit any generalization beyond the simple observation that the division of the national income between property and service shares has been fairly constant and even, it is that total property income has grown absolutely but declined relatively and that total service income, at least for the period from 1850 to 1928, increased both absolutely and relatively.

24. Uneven Division of Increased Product of New Industrial Revolution.—In order to determine to what extent, if at all, labor was participating in the recent increase in industrial productivity known as the new industrial revolution, let us consider the division between property and service shares, not of the total national income, but only of that portion of it created by industry. The following table contains this information.

PERCENTAGE THAT WAGES, SALARIES, OVERHEAD, AND RETURN TO CAPITAL ARE OF THE TOTAL VALUE ADDED BY MANUFACTURES, 1899 TO 1929[1]

Year	Wages	Wages and salaries	Overhead and return to capital	Year	Wages	Wages and salaries	Overhead and return to capital
1899	41.6	49.5	50 5	1921	44.7	57.5	42.5
1904	41.5	50.6	49.4	1923	42.6	53.4	46.6
1909	40.2	51.2	48.8	1925	40.0	51.0	49.0
1914	41.3	54.1	45.9	1927	39.3	51.3	48.7
1919	42.2	53.8	46.2	1929	37.2	48.6	51.4

[1] "Recent Social Trends," vol. 1, p. 231. Computed by Edwin F. Gay and Leo Wolman from U.S. Bureau of the Census, Census of Manufactures.

According to this study, the percentage of total values created by manufactures which went to wages and salaries combined rose slowly from almost 50 per cent in 1899 to 54 per cent in 1914 and then rapidly to 57 per cent in 1921, whereas the residual percentage going to property in the form of overhead and return to capital decreased slowly from about 50 per cent in 1899 to about 46 per cent in 1914 and then to about 43 per cent in 1921. In other words, the division between service and property shares of that portion of the national income created by manufactures

was somewhat similar to that division of the total national income. The same general tendency was in evidence between 1914 and 1921, *viz.*, a relative gain to service shares and a relative loss to property shares.

During the more recent years from 1921 to 1929, however, the opposite tendency was evident in the division of the national income produced by manufactures, although not in the division of the total national income. From 1921 to 1929, total service shares of the national income created by manufactures fell from 57.5 to 48.6 per cent, and the residual property shares increased from 42.5 to 51.4 per cent. In other words, while the division of the total national income between property and service shares had remained fairly constant between the minor depression of 1921 and the major depression of 1929 to 1933, the division of that portion of the national income created by manufactures had not remained stable but had altered considerably. The percentage of industrial income going to service shares declined and the percentage going to property shares increased. Of course, not only the total national income but also that part of it created by manufactures had increased. The decline in the service share of that portion of the national income created by manufactures was relative and not absolute.

It will be remembered that the period from 1921 to 1929 was one of rapidly increasing industrial productivity. The following chapter will show that this period was also one of increasing wages—real wages as well as money wages. Nevertheless, it would seem that the portion of the national income created by manufactures which went to service shares declined relatively from 1921 to 1929. In short, it would appear that service shares were enjoying the gains of the new industrial revolution, but not proportionately. On the other hand, property owners were absorbing relatively more of the enlarged national income resulting from increased industrial productivity.

Finally, a considerable portion of the increased income of American industry was being plowed back in capital.

It has been contended that the result was overinvestment in industry and undue expansion of plant capacity, instead of a wider enjoyment of more and varied consumers' goods. Unprecedented increases in industrial productivity, as well as huge agricultural surpluses, could not be absorbed by domestic purchasing power in the form of service incomes. Wages had not increased proportionately; commensurate opportunity to consume was not developed. Consequently, economic inequality persisted and industrial unemployment increased, in spite of the great national prosperity before 1929.

Labor's failure to share proportionately in the increased industrial productivity between 1921 and 1929 has been suggested as a contributing factor to the great economic depression which followed. In spite of

increased real wages, workers in industry did not enjoy an increase proportionate to the increase in industrial output.

25. Later Tendencies in Distribution of National Income.—Studies of the national income, begun by Dr. W. I. King, were continued by Dr. Simon Kuznets, also working for the National Bureau of Economic Research. Estimates for later years of the total income going for compensation of employees run somewhat higher and those going to property, plus entrepreneurial payments, run somewhat lower than those for the earlier years. Despite differences in computations, a similar stability in the division between service shares and property shares prevails.[1]

The percentage of total national income going in all combined forms of employees' compensation rose slightly from 68.3 per cent in 1919 to 74 per cent in 1935. This increase, however, lay not in wages and salaries, for that share remained fairly constant and rose only from 67.5 per cent in 1919 to 68.9 per cent in 1935; the increase in the total service share lay chiefly in the relative increase in compensation for injuries, pensions, and relief, which share rose from 0.8 per cent in 1919 to 5.1 per cent in 1935.

Although property shares as a whole remained fairly constant, their component elements varied considerably with changes in the business cycle. Dividends and interest payments, for example, showed divergent tendencies in some years. Dividends rose from a low level of 4.7 per cent of the total national income in 1920 to a high level of 7.8 per cent in 1930, falling thereafter to 4.5 per cent in 1933 and recovering to 5.1 per cent in 1935. Interest payments rose from 5.1 per cent in 1920 to 10.8 per cent in 1932, falling thereafter to 7.9 per cent in 1935. Rents rose sharply from 4.5 per cent of the total national income in 1920 to 6.5 per cent in 1922, and then slowly declined to only 2.2 per cent in 1934.

26. Occupational Distribution of the National Income.—The division of the national income among various occupational groups is as significant as its distribution among different productive agents. Disparity between occupational groups may be as disturbing as economic inequalities among individuals and families.

The U.S. Bureau of Foreign and Domestic Commerce apportioned the national income among the leading occupations of the nation. Of special importance are agriculture, manufacture, trade, and service. All four of these occupations lost heavily during the great depression but gained in the ensuing years of recovery.

The following table gives the respective percentages of the total national income produced by each of these occupations for several typical and recent years of prosperity, depression, and recovery. Contrasts in

[1] KUZNETS, SIMON, "National Income, 1919–1935," National Bureau of Economic Research, *Bulletin* 66.

their relative importance at a particular time and changes in their relative importance with swings of the business cycle are discernible. The great and growing importance of manufacture stands out in sharp contrast to the declining significance of agriculture. The percentages of the national income produced by agriculture and manufacture fluctuate widely; those of trade and service are comparatively steady through the various phases of the business cycle.

PERCENTAGES OF NATIONAL INCOME PRODUCED BY PARTICULAR OCCUPATIONS[1]

Occupation	1929	1932	1934	1940	1941
Agriculture	8.8	5.9	9.2	6.8	7.6
Manufacture	23.8	14.2	20.2	26.0	29.2
Trade	13.5	13.3	13.1	15.0	13.9
Service	11 4	13.6	11.9	9.6	8.5

[1] U.S. Bureau of Foreign and Domestic Commerce, Division of Economic Research.

The following table shows the distribution of the national income by major industrial sources in current dollars.

DISTRIBUTION OF NATIONAL INCOME BY OCCUPATIONS[1]
(In Billions of Current Dollars)

Occupation	1929	1940	1941
Agriculture	6 8	5.3	7.4
Mining	1 9	1 7	2.1
Manufacturing	20 9	20.1	27 6
Contract construction	3.6	2.5	3.7
Transportation	7 0	5.4	6 4
Power and gas	1 4	1 5	1 6
Communications	1 0	1 0	1 0
Trade	11 9	11 6	13 2
Finance	10 1	7 0	7 5
Government	6 4	10 2	11 7
Service	8 3	7 4	8.0
Miscellaneous	4.0	3.5	4.3
Total	83.3	77.2	94 5

[1] U.S. Bureau of Foreign and Domestic Commerce, Division of Economic Research.

The growing importance of government as business, in addition to the increasing control by government over business, is apparent. Government's share of the national income produced rose from $6.4 billion in 1929 to $11.7 billion in 1941; both of these years were prosperous. Expressing this development in percentages instead of dollars, government's share of national income produced rose from 8.4 per cent of the national income in 1929 to 17.3 per cent in 1934, to 13.2 per cent in 1940,

and 12.4 per cent in 1941. The percentage for 1934 is especially high because it includes relief figures. Public work was then relatively important and private work of less significance. The entrance of the United States into the Second World War increased still further the number of governmental employees, especially military employees, but also civil employees. The share of the national income going to the government rose suddenly and steeply to unprecedented amounts and ratios.

27. Geographical Distribution of National Income within the United States.—There may be maldistribution of income not only among people and occupations, but also between geographical areas of the same nation. Thus, some sections of the United States enjoy a relatively greater abundance of economic commodities and services than do other sections of that same vast nation (see Chart 23, page 134).

In 1936, the greatest concentration of wealth was in the older New England and Middle Atlantic divisions. Here one finds nearly 37.5% of all the wealth of the United States. If to this region is added the East North Central division, we have an area east of the Mississippi River and north of the Mason and Dixon Line and the Ohio River covering about 17% of the nation's area that contains about 48% of its population and approximately 60% of the national wealth. Elsewhere the share that each division has in the area is greater than its share in wealth.

New York state alone has somewhat more than one-sixth of the nation's wealth, exceeding in amount that of any of the geographic divisions of the country except the East North Central division. The state's wealth is almost twice as great as that of its neighbor Pennsylvania, which comes next on the list.

In 1936 there were two areas of relatively high wealth per capita. The first was the region east of the Mississippi River and north of the Mason and Dixon Line and the Ohio River, in which the three geographic divisions exceeded the average of the United States, and in which only two states failed to attain that average. Another area of high per capita wealth is found on the Pacific Coast and in the adjacent Mountain states. These two divisions exceeded the national average and among the eleven states comprised in the total only three fell below the national average.

The greatest per capita wealth is found in Nevada, followed by Montana. These and the District of Columbia, which is third on the list, exceed New York, which with $3,885 has the largest per capita wealth of any eastern state.[1]

Summary.—Prosperity should be stabilized and well distributed. Our American prosperity has been marred by grave business depressions and great economic inequalities.

Inequality is both biologic or inherent and social or acquired. Human differences cannot be eliminated, even though eugenic progress is possible. Greater equality of opportunity, however, can be achieved by the reduction of social maladjustments and economic inequality.

[1] National Industrial Conference Board, *Economic Record*, Oct. 5, 1939, p. 125.

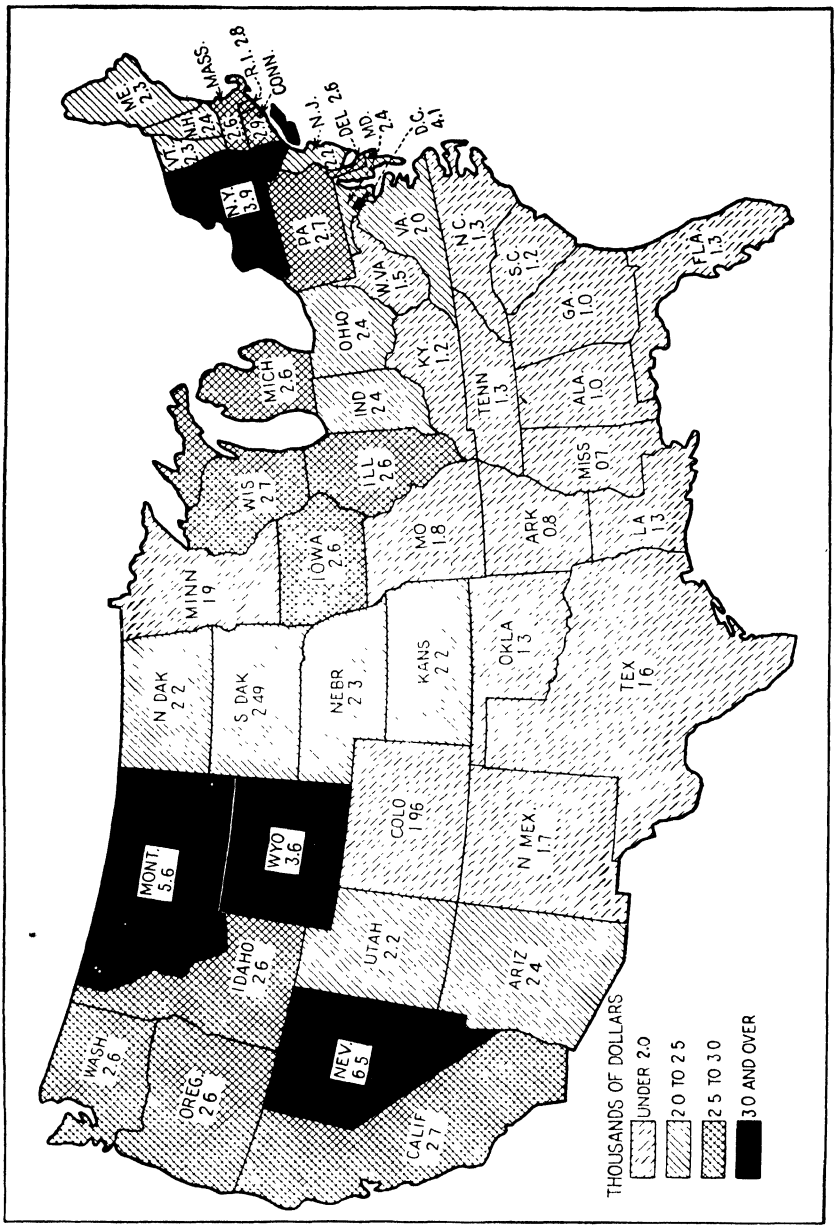


CHART 23.—Per capita wealth in the United States (by states, in 1936, in thousands of dollars). (*Courtesy of the National Industrial Conference Board, from Conference Board Economic Record, Oct. 5, 1939.*)

Inflation, wars, industrial consolidations, speculation, financial manipulation, monopoly, and rising land values are some specific causes of large fortunes. Their persistence has been fostered by unrestricted inheritance; trusteeship; delay in taxing large incomes, excess profits, and substantial estates at high and progressive rates; failure to absorb unearned increments from land and monopolies; and inability to regulate effectively trusts and public utilities.

Economic inequality has serious effects. It prevents the production of necessities for all before the production of luxuries for the few. Hence it reduces the total utility enjoyed by American society as a whole in the consumption of its great national prosperity. Glaring economic inequality permits the continuation of miserable living conditions of the masses and conspicuous consumption by the classes. The striking contrast between the poor and the rich has always been a cause of social unrest. It has been mitigated by the generous philanthropies of some wealthy individuals, who have regarded their private fortunes as public trusts.

Individual success has frequently been interpreted as victory in the economic struggle for existence. But the possession of great wealth may be the result of family inheritance, rather than of personal achievement. Individual acquisition is not always an indication of economic production. Large fortunes may have originated in fortuitous circumstances, over which individuals themselves may have exerted little control. Indeed, some fortunes have been acquired by unsocial methods or by sharp practice. In contrast is the economic ideal of individual acquisition according to economic production.

Equality of opportunity is not to be confused with economic equality. Equality of opportunity merely implies equal chance to become unequal, *i.e.*, similar opportunities to all individuals to develop to the limits of their varying inherent abilities. Equality of opportunity does not decrease competition; it merely improves its character and eliminates artificial handicaps.

The national wealth of the United States has been unequally divided. Before the great depression, the richest 2 per cent of our population owned 40 per cent of the national wealth, whereas the poorest 65 per cent of our people owned only 15 per cent of the total wealth.

The national income likewise has been unevenly distributed. In 1935–1936, families with annual incomes under $1,000 made up 42 per cent of all families but received less than 16 per cent of the aggregate income, whereas families with annual incomes of $5,000 and over made up only 3 per cent of all families but received 21 per cent of the aggregate income.

The national income has been unevenly distributed among different occupations and over various sections of our country. Agriculture has

received a disproportionately small share. There has been concentration of wealth in some New England, Middle Atlantic, North Central, and Far Western states.

Economic inequality has been greatly reduced as the result of high, progressive taxes on incomes and estates, imposed during the administration of President Franklin D. Roosevelt to finance national recovery and international security.

Questions for Discussion

1. What evidence do you have of the unequal division of the national wealth of the United States?
2. What evidence do you have of the unequal distribution of our national income?
3. Distinguish between property and service incomes. Do you regard the terms "unearned" and "earned" incomes as fair? Do they represent the same distinction as that between property and service incomes?
4. *a.* Show how the national income has been divided between property and service shares.
   b. What tendencies, if any, have been evident?
5. *a.* How were the gains of the new industrial revolution divided between property and service shares?
   b. What conclusions, if any, would you draw?
6. Enumerate and illustrate different types of inequality.
7. Distinguish between economic equality and equality of opportunity.
8. Is individual acquisition proportionate to individual production? Why or why not?
9. Outline some causes of economic inequality.
10. Outline some forces which tend to reduce economic inequality.
11. Indicate some important economic, social, and political effects of economic inequality.
12. Does economic inequality seem to be increasing or decreasing? Cite evidence. Give reasons.

Topics for Investigation

1. Attempts to distinguish between earned and unearned income for purposes of taxation.
2. Veblen's concept of conspicuous consumption and the leisure class.
3. Analogy between natural selection in the struggle for existence and business success in economic competition.
4. Origins of large fortunes.
5. Taxation of estates and inheritances in the United States and abroad.
6. Wars and millionaires.
7. Growth of American cities and the unearned increment of land values.
8. Effect of New Deal on economic inequality.

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CHAPTER VII

THEORIES OF WAGES AND THE COURSE OF REAL WAGES

LABOR'S SHARE IN OUR NATIONAL PROSPERITY

1. Nature of Labor.—Labor may be defined as human effort in production; *i.e.*, the creation of utilities. As the term "labor" is confined to the economic activities of human beings, the productive exertions of lower animals cannot be regarded as such. Beasts of burden should be classified as capital.

Play, no matter how strenuous, is not labor. The motive of play is recreation rather than production. When recreation and production are combined, the question becomes which motive is primary and which is secondary. Such an economic distinction is in agreement with the common difference between the amateur and the professional sportsman.

Labor which is not monotonous, difficult, or prolonged can be more enjoyable than irksome. A normal individual relishes creative effort and useful occupation. Leisure gives recreation through change of occupation rather than through idleness. Long-continued inactivity is a depressing form of punishment, as all penologists well know.

Paradise has often been pictured as a delightful place of prolonged idleness in a heavenly environment, where an inexhaustible and readily accessible supply of milk and honey permits the enjoyment of infinite leisure by its angelic inhabitants. Such was the concept of an exploited and poverty-stricken people, who dreamed of an entirely different condition of affairs from the one under which they lived. Modern thinkers, however, do not deplore labor but glorify it. They do not idly dream of the elimination of work, but strenuously seek for an improvement of working conditions. By the reduction of excessive hours of labor they aspire to an adequate amount of leisure, not for the few but for the many. By an increase of wages they seek the development of higher standards of living for the masses as well as the classes. The good life for all conditions of mankind is their ideal.

2. Basic Distinctions.—If production is the creation of utilities, economic producers are individuals who create utilities. Such utilities may be those of form, time, place, possession, or service, as illustrated respectively by the labor of a carpenter, a canner, a locomotive engineer, a store clerk, or a physician.

Productive labor, a redundant term, creates utility. *Gainful employment* receives monetary remuneration. These two concepts are neither identical nor mutually exclusive. The labor of housewives is productive, for they create numerous important utilities; because they do not receive wages, these economic producers are not gainfully employed. On the other hand, soldiers engaged in destructive warfare are gainfully employed, but not economically productive. In most cases, however, productive labor is gainful employment.

The distinction between productive labor and unproductive human effort is not the same as that between *socially desirable* and *socially undesirable labor*. The former distinction depends on the creation or noncreation of a utility—any utility to any consumer. The latter distinction is a matter of ethics rather than of economics. It involves subjective, moral, or aesthetic judgment concerning the nature of a utility and its relationship to individual welfare and social well-being.

Neither of these two distinctions coincides with that between *legal* and *illegal labor*. This distinction depends on the existence or nonexistence of a law, or a court decision.

Not all productive labor is socially desirable. Neither is all socially undesirable labor illegal. Whisky may possess utility to one person but not to another. Its manufacture, therefore, is productive labor, because a utility is created. On the other hand, the manufacture of whisky may be regarded as socially undesirable, and legislation may be passed to prevent its distillation and sale. Similarly, the manufacture of chewing gum, cigarettes, impotent patent medicines, or trashy novels may be viewed as socially undesirable, but it is neither illegal nor unproductive.

The *dignity of labor* lies not in its rate of compensation, not in the amount of hardship involved or avoided, and not in the relative amount of social prestige attached to it. The true dignity of labor is to be found in its social desirability, difficult though it is to define and to measure that concept. The Founder of Christianity was a manual laborer, by trade a carpenter. Hence the poet sang:

> This is the gospel of labor,
> Ring it, ye bells of the kirk,
> The God of love came down from above
> To live with the men who work.

3. Types of Labor and Nature of Labor Problems.—Just as land in its economic sense includes all natural resources, so the labor supply includes all human workers, whether by brawn or by brain, as long as that human effort is productive of utility. The distinction between wages and salaries is an arbitrary social distinction, not a real economic difference. "Sala-

ries" imply long-term payment for white-collar employment; "wages" mean short-term payment for physical labor.

Labor may be that of an independent enterprise or that exerted in the employment of another. Individuals who are working for themselves, whether as corner bootblacks or as heads of large concerns, are usually regarded as business enterprisers rather than as laborers. The term "labor" is generally used to refer to the employed group who receive wages, instead of those who seek profits on their own initiative and responsibility.

Labor problems, then, concern those workers who are gainfully employed by captains of industry, who manage the productive enterprises, who furnish the instruments of production and places of employment, and who advance funds in the form of wages to the workers thus employed. A labor problem can hardly be said to exist when one is working for himself and is able to determine his own conditions of labor and to modify them at will. Labor problems arise when one sells his services under certain conditions and for a definite price to someone else. The legal aspect of this situation is the contract, achieved by individual or collective bargaining. Its economic aspect is the wage system and the valuation process involved in wage determination.

4. Labor Supply.—The total normal adult population of a nation constitutes its potential labor supply. There are two social groups within the population, however, who are not economic producers. On the one extreme are the *social debtor groups, i.e.*, defectives, delinquents, and dependents, constituting, respectively, the incompetents, the criminals, and the paupers in society. At the other extreme of the social scale are members of the so-called *leisure class*, who are exempt from productive labor by virtue of their ownership of enough wealth to yield an income sufficient to maintain them in idleness.

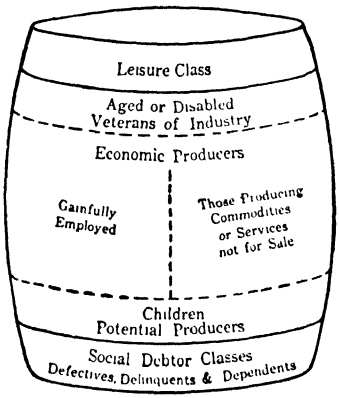


CHART 24.—Economic producers and nonproducers.

A clever critic once said of contemporary English society that it resembled a barrel of its own ale, dregs at the bottom and froth at the top, but thoroughly wholesome in the middle. This homely analogy is expressed graphically in Chart 24, which distinguishes producers from nonproducers.

There are two groups of nonproducers to whom no stigma can be attached and of whom no criticism can be made. Children are potential or future producers, who should be in school instead of in gainful employ-

ment. Aged or disabled workers, who formerly were producers, are entitled to leisure with compensation; they are veterans of industry who have won an honorable discharge from the ranks of the gainfully employed.

Finally, Chart 24 seeks also to illustrate the fact that not all economic producers are gainfully employed. Some consume in their own homes the utilities which they there produce.

5. Occupational Groups among the Gainfully Employed.—The 1940 census disclosed that out of our total population of over 131 million people, about 45 million persons, roughly one-third of the total, were gainfully employed. Of these 45 million gainfully employed persons, over 11 million, *i.e.*, about one-fourth, were women. In addition to these 45 million gainfully employed persons there were 4 million who were reported as out of work but looking for employment.

The occupational distribution of the 45 million gainfully employed workers of the United States is given in the following table.

OCCUPATIONAL DISTRIBUTION OF GAINFULLY EMPLOYED[1]

Occupation	Men		Women	
	Number	Percentage	Number	Percentage
Professional and semiprofessional	1,875,387	5.51	1,469,661	13 9
Farmers and farm managers	4,991,715	14.67	151,899	1.36
Proprietors, managers and officials	3,325,767	9.77	423,520	3.8
Clerical, sales and kindred	4,360,648	12.81	3,156,982	28.34
Craftsmen, foremen and kindred	4,949,132	14.54	106,590	0.96
Operatives and kindred workers	6,205,898	18.24	2,046,379	18.37
Domestic service	142,231	0.42	1,969,083	17.68
Protective services	677,213	1.99	4,321	0.04
Service workers	1,519,482	4.47	1,257,318	11.29
Farm laborers and foremen	2,770,005	8.14	320,005	2.87
Laborers except on farm or mine	2,965,693	8.72	98,435	0 88
Other occupations	244,734	0.72	133,985	1 20
Total with work	34,027,905	100	11,138,178	100
Without work but looking for it	3,381,881		944,588	

[1] U.S. Census for 1940.

The national family of workers, actual and potential, and their dependents has been pictured as follows.[1]

"In 1941, we were 30 million families and perhaps 10 million single persons living alone—total 133,000,000 persons."

Gainfully employed persons	50,000,000
Unemployed (not on relief)	4,000,000
Housewives	29,000,000
Total potential workers	83,000,000

[1] CHASE, STUART, "An American Program of Plenty," Personal Growth Leaflet 153 of the National Education Association, based on "Goods for America," Twentieth Century Fund.

Children under 14	31,000,000
Students 14 to 25	9,000,000
Old and disabled	10,000,000
Total dependents	50,000,000

BY OCCUPATIONS

In factories	13,000,000
On farms	10,000,000
In trade	7,000,000
In government	6,000,000
In finance and services	4,000,000
Construction industry	2,000,000
In all other occupations	8,000,000

6. Noncompeting Labor Groups.—The gainfully employed portion of our population is as noncompetitive as it is nonhomogeneous. It is divided horizontally into various economic classes, as well as vertically into different occupations.

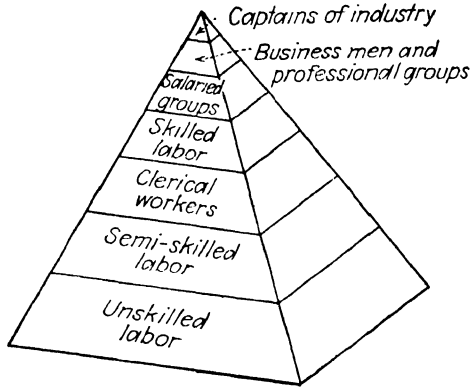


CHART 25.—The social pyramid of noncompeting labor groups.

Economists speak of the so-called "noncompeting" labor groups. There is unskilled labor at the base of the social pyramid and above it semiskilled labor. Next come skilled labor and clerical workers in this or in the reverse order; one group enjoys the prestige of white-collar status, the other enjoys better wages. Still higher is the group receiving substantial salaries; it includes business and professional men. At the apex of this social pyramid are those few individuals of superior capacity who are capable of planning and administering large undertakings (see Chart 25).

This classification is merely suggestive; it is neither absolute nor rigid. In reality, there are many economic groups which overlap and

which merge into each other. Again, individuals are constantly moving up and down from one group to another. The romance of American history lies in the absence of social castes, despite the presence of economic classes. A rail splitter became President of the United States, and numerous captains of industry rose from the ranks.

Labor, like land, is heterogeneous; there is a similar scarcity of the best type. Hence there is a human differential, or rent element in wages.

This social stratification results from contrasting conditions in both heredity and environment. The composition of these noncompeting economic groups, representing different degrees of human capacity and economic scarcity, reflects both biological and social differences. The masses in society are hewers of wood and drawers of water not because most of them are mentally incapable of doing something better; it is merely that they have never received the education or inspiration to do so. Mental and physical differences between individuals will always exist because of biological heredity and variation. Nevertheless, it cannot be assumed that the higher income groups constitute superior biological stock and the lower income groups represent inferior heredity.

7. Supply of Labor and the Social Pyramid.—For an explanation of differences in wages, one must turn to relative conditions of supply and demand. The number of competent men for certain types of work is limited, either because of a scarcity of natural ability or because of a deficiency in acquired training.

Population tends to grow from the bottom of the social pyramid, *i.e.*, to increase most rapidly among the lowest economic groups. Progress in civilization is accompanied by a falling birth rate, as well as by a falling death rate. However, at any given time and place, striking contrasts in the birth rates of different economic groups can be observed. In general, the lower the plane of living, the higher the birth rate and the death rate. This social tendency is clearly demonstrated in the following study.

BIRTH RATE ACCORDING TO DEGREE OF WEALTH IN DIFFERENT SECTIONS OF EUROPEAN CITIES[1]

(Average Number of Annual Births per 1,000 Women from Fifteen to Fifty Years of Age)

	Number of years	Very poor	Poor	Well off	Very well off	Rich	Very rich
Paris	5	108	95	72	65	53	34
London	5	147	140	107	107	87	63
Berlin	5	157	129	114	96	63	47
Vienna	5	200	164	155	153	107	71

[1] BERTILLION, Quoted by Chatterton-Hill, "Heredity and Selection in Sociology," p. 325.

A similar tendency can be seen in our own country, where the low wage group consists largely of unskilled laborers. Their birth rate is higher and their plane of living lower than those of the more prosperous groups. According to Professor Carver,[1] wages will tend to remain low in certain occupations as long as the workers in these groups continue to increase rapidly by large immigrations from either Europe or Heaven. The disparity in the birth rates of native- and foreign-born groups in our population was discussed in Chap. IV.

Within the same labor groups there are apt to be slight differences in wages owing to the immobility of labor. These differences may be explained also in terms of the greater hazards or irregularity of employment in certain occupations, which must pay somewhat higher wages in order to attract workers from more desirable occupations within the same labor group. Again, social prestige may impel an individual to accept a "white-collar job" which pays less than a manual occupation within a comparable economic group.

8. Development of the Wage System.—In primitive economic society producer and consumer were identical; *i.e.*, each producer consumed chiefly his own products; there was little specialization and there were few organized markets. Ancient and medieval societies were characterized by such forms of status as slavery and serfdom, in contrast to our modern institution of freedom of contract, which is essential to the wage system.

Capitalism implies private property and individual enterprise instead of collective ownership and operation of the instruments of production. Competition and choice are involved; markets exist and exchange flourishes. Profit is the impersonal stimulus to, and price is the automatic regulator of, production. All these factors, and more, are fundamental to the wage system, which developed with capitalism and is still inseparable from it.

Industrialism, the most recent phase of capitalism, added the factors of power machinery and the factory system; it increased specialization and expanded world markets. As power machinery replaced the craftsman and the factory system supplanted the domestic system, there came into existence a class of machine owners and a mass of machine operators. The workers lost ownership of their instruments of production and control of their conditions of employment. The industrial revolution produced a different economic cleavage and a new class consciousness. These factors have colored the modern wage system.

9. Characteristics of the Wage System.—The term "wage system" is vague in use and difficult of definition. It is possible, however, to describe some of its chief characteristics. Under the wage system the enterpriser determines the course of production and brings together the

[1] CARVER, T. N., "Essays in Social Justice," chap. 14.

various factors therein, accepting the financial responsibility, in part at least, for his economic venture. As production is roundabout and in anticipation of demand, the enterpriser must own or borrow the capital, from which he makes advances to the workers in the form of wages. Not only does he direct the economic process, but also he advances wages to labor as its share of the final product.

The enterpriser's reward in the form of profits is relatively uncertain, although it may be large. The tendency of losses to balance profits is sometimes overlooked by labor leaders. The enterpriser is under constant pressure to meet price competition of the market. On the other hand, the worker also shares the risks of industry. Some of the risks of labor, such as unemployment, industrial accident, and dependent old age, will be treated in the following section of this work.

Although the wage system involves ownership of the instruments of production by the capitalist class, it does not follow that the employee is completely dependent on the employer as to wages, hours, and conditions of work. Although the wages of some workers are inadequate to maintain decent standards of living for their families, the organization of labor has developed in response to its bargaining disadvantages. Again, the employer's industrial power has been curtailed by the passage of fair-labor-standards laws.

It is impossible in this survey of social problems of industry to discuss in detail particular wage theories or general theories of distribution. It is hoped that the reader has previously had a course in economic principles or, if not, that he will at this point betake himself to a general text on economic theory. In order that this chapter be thought-provoking, the student should try to square these factual findings with accepted economic reasoning. The actual course of real wages should be analyzed in the light of various wage theories, only a brief mention of which can be made here.

10. Subsistence Theory of Wages.—One of the earliest theories of wages is that familiarly known as the "subsistence theory," or, as the socialists termed it, the "iron law of wages." This theory is commonly ascribed to David Ricardo and the pessimists, whose gloomy forebodings made Thomas Carlyle term political economy the "dismal science." The subsistence theory of wages was the conclusion of a syllogism, the major premise of which was the law of diminishing returns from land and the minor premise of which was the Malthusian principle of population. The niggardliness of nature, on the one hand, and the fecundity of man, on the other hand, were regarded as making it impossible for wages, in the long run, to rise above a mere subsistence level. As population increased, rents rose and profits fell. Hence the landlord benefited at the expense of the capitalist. Although money wages rose, so did food prices; real

wages therefore, tended to remain constant at a subsistence level. Whether the landlord profited at the expense of the manufacturer, or the reverse, it was black bread for the worker in either case. Such was the pessimistic view of the English classical school.

The law of diminishing returns from land and the Malthusian theory of population are correct when stated with proper qualifications and as general tendencies. But there are other tendencies, such as progress in the arts, which cause an increase in the production of economic goods and a rise in standards of living, which is accompanied by a decrease in the birth rate. Rapid improvements in the arts of production since the days of Ricardo have probably offset or deferred the sinister consequences of the principle of diminishing returns from land. The great abundance of natural resources in America and the relative scarcity of our population have made the Malthusian menace a rather remote one in this country. The exhaustion of free land and the absence of a frontier are relatively recent developments in the United States.

The subsistence theory of wages has sometimes been interpreted to mean not a bare physical existence in the sense of just sufficient food to keep the worker alive and to permit him to reproduce his kind, but as the current minimum standard of living. This qualification of a minimum standard of living, however, makes the subsistence theory of wages an expansive concept and not a rigid one, as its critics supposed it to be. Just as higher wages make for higher standards of living, so rising standards of living make for higher wages, either directly by refusal of substandard wages or indirectly by limitation of population.

11. Wages-fund Theory.—The subsistence theory of wages was modified by Mill and his contemporaries into what has been termed the "wages-fund theory." According to this concept, available working capital constitutes a somewhat rigid wages fund. The general rate of wages at any particular time and place was regarded as the ratio between capital and population. The wages-fund theory was later refined by substituting for capital only that part of it available for advances to labor, chiefly food, and by substituting for population only the gainfully employed portion of it. But such qualifications make the wages-fund theory a mere truism, which states only that the workers get what they get. If qualified, it becomes meaningless; if unqualified, it is incorrect.

Sharp criticisms were leveled against the wages-fund theory. It was denied that capital constitutes the sole demand for labor and that the relative amount of working capital determines wages. Henry George and Francis Walker repudiated the existence of a rigid wages fund and refused to believe that wages depended on the ratio between capital and labor. Instead, they contended that wages were determined by current income from production, rather than by the stock of capital in existence.

Cairnes, a disciple of Mill and an advocate of the wages-fund theory, pointed out the heterogeneous character of the laboring population and the existence of many noncompeting groups. The supply and demand forces for each of these divergent groups are different. If this is true, then perhaps it is incorrect to speak of a general wages fund, or even of a general rate of wages, except for members of the same labor group. Nevertheless, Cairnes was firmly convinced of the existence of a wages fund, of the dependence of wages in general on the supply of available capital, and of the futility of any labor organization to increase wages except at the expense of some other group.

12. Productivity Theories and Value Analysis.—The commonly accepted wage doctrine today is the marginal-productivity theory, or perhaps the specific-productivity theory.

The marginal-productivity theory, in brief, contends that each worker will receive in wages an amount equal to the value of the marginal product of his labor group. This marginal product is determined by its supply and demand factors; it can be measured by the loss in production due to the withdrawal of one worker from a specific combination of land, labor, capital, and business enterprise.

Any particular combination of factors in production is determined by the cost of each factor and by the price of the finished product. Plentiful factors will be cheap, and, consequently, they will be used abundantly, while scarce factors will be dear and sparingly used. The values of factors and products are determined simultaneously, and the values of commodities and services are determined similarly. There is an infinite series of margins, determined by an interdependent series of supply and demand forces, which determine also marginal uses and marginal products of the productive agents.

The wages of workers, like the values of economic goods, are determined by relative supply and demand forces. If the supply is great, relative to its demand, the marginal product of that type of labor will be little and wages will be low. If the reverse is true, the marginal product will be great and wages high.

The answer to the problem of low wages, say some advocates of marginalism, is not a minimum-wage law, but the reduction of the supply of that type of labor which is cheap, relative to other types of labor, relative to other factors in production, and relative to its particular demand. Hence reliance is placed on lowered birth rate, restriction of immigration, or a program of free education, by means of which promising individuals in lower and more crowded economic groups are permitted to move up into the less congested and more remunerative occupations.

13. Specific Productivity versus Marginal Productivity.—The specific-productivity theory is an unwarranted extension of the marginal-pro-

ductivity theory. It likewise makes distribution a valuation process of the factors in production; it also gives a supply-and-demand or a relative-scarcity explanation of wages in particular and of prices in general. But it asserts unwarranted claims of ability to isolate from the joint product of all factors in production the specific product of each one. The specific-productivity theory contends that each factor in production, *e.g.*, labor, receives in distribution a share, *viz.*, wages, which is equivalent to just what it produces. Therefore, the specific-productivity theory has been interpreted as a justification of the present economic system.

The marginal-productivity theory cannot be regarded as a justification of the present system, because it does not claim that each factor gets just what it produces; nor does it profess to isolate the specific product of any one factor from the joint product of all factors in combination with each other. The joint product of many workers must pass through the hands of many employers and merchants before it is finally sold as a finished good. The cooperative, specialized, and indirect character of modern industry renders impossible the isolation of the specific product of labor. It also makes difficult the measurement of the marginal product of a given type of labor by the addition or subtraction of one unit of labor from a particular combination of factors in production.

14. Criticism of Productivity Theories.—While economists have questioned the validity of the specific-productivity theory and the practicability of the marginal-productivity theory, labor leaders have indicted both. The specific-productivity theory has been regarded as an academic attempt to justify the present economic system. The marginal-productivity theory has been stigmatized as a commodity theory of wages which evaluates the labor of human beings in the same manner as that of a piece of machinery or a barrel of potatoes. Both productivity theories have been termed scarcity theories masquerading under different names. The proper economic beatitude is "Blessed is the scarce factor, for it will be abundantly rewarded," not "Blessed is the industrious laborer, for his wage will be high."

How else can one attack the problem of wages, which is essentially a valuation problem, except with the supply and demand blades of the scissors of value? Moreover, the dislike of a given theory is no proof of its falsity. The calling of names does not dislodge one from a reasonable position well buttressed with true facts and tightly cemented by sound logic.

On the other hand, economists may well question how far the force of competition has free play in the determination of the value of services as well as of commodities. A strong association of employers and a

powerful labor union may be so monopolistic in character as to render the assumption of free competition a mere fiction. Under any circumstances one must consider the relative bargaining power of a labor group, in addition to its supply and demand forces.

15. Bargaining Theory.—Political factors, as well as economic forces, must be appraised in wage determination. Supply and demand merely set general limits within which particular circumstances permit a rather wide play. The estimate of the laborer is a resultant of the utility of the reward and the disutility of the work; the estimate of the employer depends on the increase in the value of the good produced by labor in relation to the increased cost of production due to his employment. Between these upper and lower limits of seller and buyer, respectively, wages are determined by the relative bargaining power of the two parties to the wage contract. (See Chart 26 on page 150.)

According to this theory, the employer's estimate is an approximation of the marginal product of labor. It represents a maximum beyond which he cannot go. How much below this point he will go depends on the relative bargaining position of the two parties. The minimum level below which no wage can fall is either the physical level of subsistence or the social level of a minimum standard of decent living.

The bargaining power of the two parties to the wage contract has not been equal but vastly different. Because of their inferior knowledge of the market, their lack of mobility, their inferior resources, and their lack of effective organization, most labor groups have been inferior in bargaining power to the employers. However, the passage of social legislation and the rapid growth of labor organizations have reduced markedly the former disparity in bargaining powers of the two groups.

16. Reconciliation of Productivity and Bargaining Theories.—Critics of the marginal-productivity theory have pointed with the one hand to the great gains in the wages of strongly organized unions and with the other hand to the bare subsistence wages of unorganized groups. But such an appeal to the facts does not overthrow the marginal-productivity theory, for organized groups of workers may have secured their higher wages indirectly by an artificial restriction of their numbers through such devices as the closed shop, limitation of apprentices, and restriction of immigration, rather than directly through superior bargaining power.

Again, theories are mere statements of general tendencies, which may be opposed or frustrated by the operation of other forces. Thus wages are the resultant, not only of the relative supply and demand forces of a given type of labor, but also of its relative bargaining powers. In addition, there is the omnipresent force of inertia, represented by the institutionalization of a given wage, which makes difficult, slow, and inexact any

adjustment to changes in either the economic factors of supply and demand or the political factor of bargaining power.

If the workers are unorganized, ignorant, and immobile, whereas the employer is powerfully entrenched, the clever bargainer may succeed in paying that type of labor less than its marginal product. The employer himself may pocket as additional profits the difference between the marginal product and the actual wage. This has been the situation in certain "sweated" trades in which the subsistence wage has been a reality.

On the other hand, if workers are well organized, they may be able to bargain so successfully that the employer will be forced to pay in wages

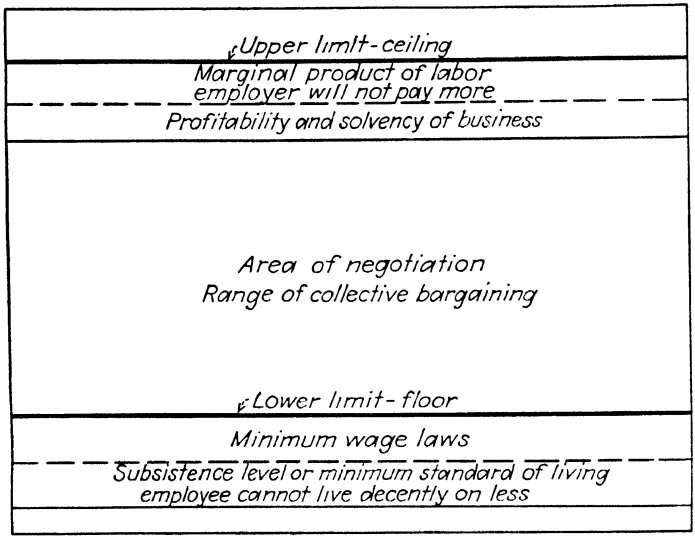


CHART 26.—Wage determination.

the full value of the marginal product of that type of labor. Again, the organized workers may be successful in raising their marginal product and hence their wages by a limitation of the supply of that type of labor.

Perhaps it is safe to say that the marginal product merely fixes an upper limit to wages. It is obvious that an employer will let a man go rather than pay him more wages than the value of his marginal product. On the other hand, where workers are unorganized, an employer will be able to pay his employees as much less as they are willing to take. This "sweated" wage varies with each worker's bargaining power.

17. Idealistic and Realistic Theories.—Professor Hobson attempted to replace our pecuniary values of industry with what he termed a "human valuation." He sought to express social costs, not monetary

expenses of production. He repudiated both productivity and bargaining theories. He contended that the minimum wage of labor should be a sum sufficient to maintain the laborer in working efficiency and to permit him to rear a family in decency and comfort. But the wages of many workers have been insufficient to do this, as will be demonstrated in the following chapter. Hence Professor Hobson has given us a romantic portrait of what should be, not a realistic photograph of what is the case.

Karl Marx, founder of scientific socialism, appropriated from Ricardo and the classical economists both the iron law of wages and the labor theory of value. Marx complained that the employer received a surplus value by selling the products of labor at their use value, paying the laborers a mere subsistence wage, and keeping the difference himself. Marx further contended that the lot of the workers was becoming steadily worse, and that revolution was inevitable. Although Marx professed to be a realist, as well as a materialist, his position has not been vindicated by economic facts or by economic history. Conditions of labor were probably worse immediately after the industrial revolution than immediately before it, but in the long run the laborer's lot has not become worse. On the contrary, it has improved over the course of centuries.

18. Cost-of-living and Social-progress Theories.—Other theories of wages have been reared on a cost-of-living basis. The thought behind such a concept is that money wages should keep pace with changes in costs of living. Such an analysis is not a theory of wages at all. It assumes a given wage for a particular group of workers and then merely endeavors to maintain the same real wages by adjusting money wages to altered costs of living. This plan for wages has been utilized by workers in periods of rising prices to demand increases in money wages and by employers in times of falling prices to justify cuts in money wages. It was the formula followed by the War Labor Board to adjust money wages for increased costs of living before the prices of commodities and services were frozen after the entrance of this nation into the Second World War.

In addition to the concept of unimpaired real wages and an adequate family wage, labor leaders are advancing the theory of a social wage; *i.e.*, labor should share in increased industrial productivity due to technological advances. Real wages should keep pace with the rapid strides in industrial productivity. Such a concept of wages is dynamic, not static.

19. Different Studies of Wages.—The course of real wages before the opening of the twentieth century is largely a matter of conjecture, for reliable statistics are not available. But the consensus of opinion, based on the best possible evidence, is that real wages increased. In spite of wide fluctuations and great contrasts, the general trend seems to have been upward.

Several studies of the course of real wages will be analyzed. The student will be permitted to draw his own conclusions from the evidence presented. Some divergence of opinion is natural, owing to the complexity of the material, the dynamic character of industrial society, and the differences in scope and method of various wage studies. There is considerable unanimity of opinion on some points, for some periods, and for some groups, but the student should be prepared to find certain differences in the conclusions of various investigators. Their similar and dissimilar findings should be noted carefully. Old and new wage theories should be tested in the light of these factual findings as to the course of real wages.

20. Wages and Earnings.—The term "wages," strictly interpreted, means rate of pay, and the term "earnings" refers to what the worker actually receives. A wage rate represents labor payments for a short period of time, such as an hour or a day, whereas earnings are labor payments for a longer period of time, such as a month or a year. Wage rates may be expressed per piece of work, in which case earnings are payments for all work done. Thus earnings are wages refined in terms of employment. In spite of high wage rates, actual earning will be low if employment is irregular and work is meager. Earnings are more meaningful than wages, because planes of living depend on earnings instead of wages. It takes actual earnings and not wage rates to pay grocery bills.

21. Changes in the General Price Level.—The course of real earnings is difficult to determine because of fluctuations in the general price level. After money earnings have been ascertained, they must be refined in terms of changing costs of living. The distinction between money wages and real wages is familiar, but it is none the less important. It is obvious that if a man receives $2,000 this year, instead of $1,000 received a decade ago, his money earnings have doubled. But if in the meantime the general price level has doubled, the purchasing power of his money earnings has been cut in half. Although his money earnings have doubled, his real earnings have remained the same.

Wars have been periods of inflation, followed by postwar periods of deflation. Although exact and authoritative information is lacking, such seems to have been true of the Revolutionary War and the War of 1812. Likewise, the Civil War was a period of inflation, during which relatively short time the general price level doubled.

From the close of the Civil War until the opening of the present century, the general trend of the price level was downward, in spite of minor fluctuations during this period of thirty years. About 1896, however, a change occurred, one cause of which was an increase in the world's supply of gold. The general price level began to rise instead of continu-

ing to fall. In spite of minor fluctuations the general trend was gradually upward during the next two decades.

The period of the First World War witnessed a rapid increase in prices; within five years the general price level doubled. But from 1920 to 1921 there was a sharp decline in the general price level, although it did not fall back to its prewar level. The period from 1922 to 1929 was one of relative stability, but in the great depression of 1929 to 1932 the general price level fell back approximately to the prewar level of 1913.

The recovery program and the inflation legislation of 1933 checked the downward trend of the general price level. The outbreak of the Second World War in 1939 and the involvement of the United States in 1941 started another upward spiral of prices. Governmental price control and rationing of certain commodities became necessary.

22. Wage Trends over Last Century.—One of the most comprehensive studies of wages in the United States is that of Professor Hansen; it gives a bird's-eye view of general trends during the past century. The results of this study are reproduced in Charts 27*A* and 27*B*, on page 154.

According to this survey, real wages toward the close of the nineteenth century were over twice as great as those in the early decades of that century. In 1924, American real wages were three times as great as in 1820.

One of the most interesting features of Chart 27*B* is the disclosure that the secular trend of real wages paralleled that of production. Hence, in the long run, if not in the short run, the general tendency has been for labor to share in the increased productivity of industry.

There have been periods of relative and even of absolute recession. Thus, there was a fall in real wages in the middle thirties, a period of recovery in the later thirties and forties, a decline in the early fifties, and a period of recovery in the late fifties.

During the Civil War prices rose more rapidly than money wages. Hence real wages suffered during this period of inflation, but they recovered during the late sixties and early seventies. Although undergoing two cyclical variations in the next decade, the general trend was upward. From the middle of the eighties to the middle of the nineties, there was a steady upward tendency in the course of real wages.

From 1897 to 1900, there was a recession in real wages. This period was characterized by a changed tendency of the general price level. Instead of continuing its former downward course, the general price level began to move upward just before the close of the nineteenth century.

After the short decline in real wages between 1897 and 1900, no general trend in the course of real wages appeared for the next fifteen years. Professor Hansen's index of real wages for 1913, 1914, and 1915 is just about the same as that for 1900. In other words, real wages varied from

year to year during this period of fifteen years, but there was little net advance and, if anything, a slight decrease.

The year 1916 showed some advance in real wages, which gain was maintained with yearly fluctuations until 1919. Although money wages rose markedly during this period of inflation, Hansen's index shows only a slight increase in real wages during the First World War.

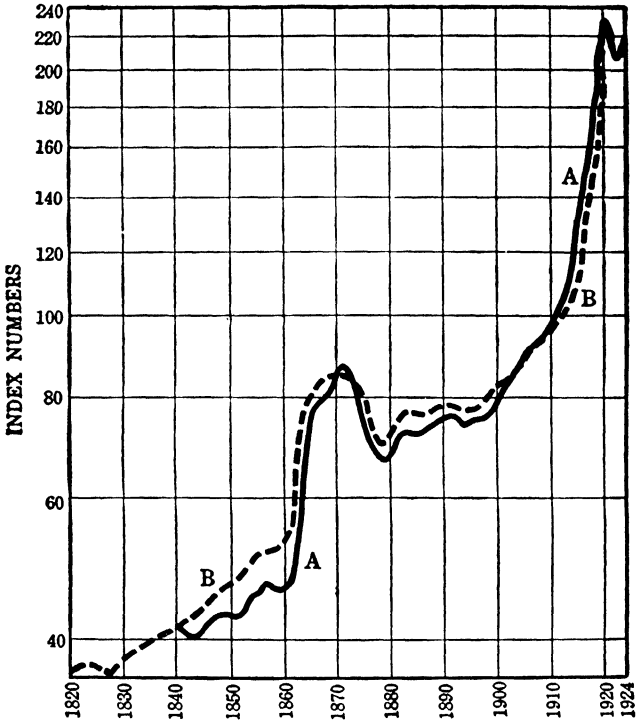


CHART 27A.—Courses of money wages (1820 to 1924). The solid line (Curve *A*) is Hansen's combination of numerous previous studies of the course of money wages. The dotted line (curve *B*) charts the results of a similar study by the Russell Sage Foundation. The correlation between the two curves testifies to the validity of these two independent studies. (*From A. H. Hansen, "Factors Affecting the Trend of Real Wages," American Economic Review, March,* 1925.)

From 1919 to 1923, real wages rose steadily and rapidly. This increase in real wages, as will later be shown from other studies, continued until 1929. The new industrial revolution of the United States, discussed in Chap. V, was characterized by a substantial increase in real wages.

In conclusion, it is believed that, despite temporary recessions, the general trend of real wages was upward during the nineteenth century, but complete and reliable data are lacking for the early years. After stagnation before the First World War and uncertainty during this

confused period, real wages increased markedly until the great depression from 1929 to 1933.

23. Trends of Earnings during Past Generation.—One of the most comprehensive studies of earnings, money and real, of various groups of workers over the last three decades is that of Professor Douglas, who prepared a composite index of the average annual earnings of all employed

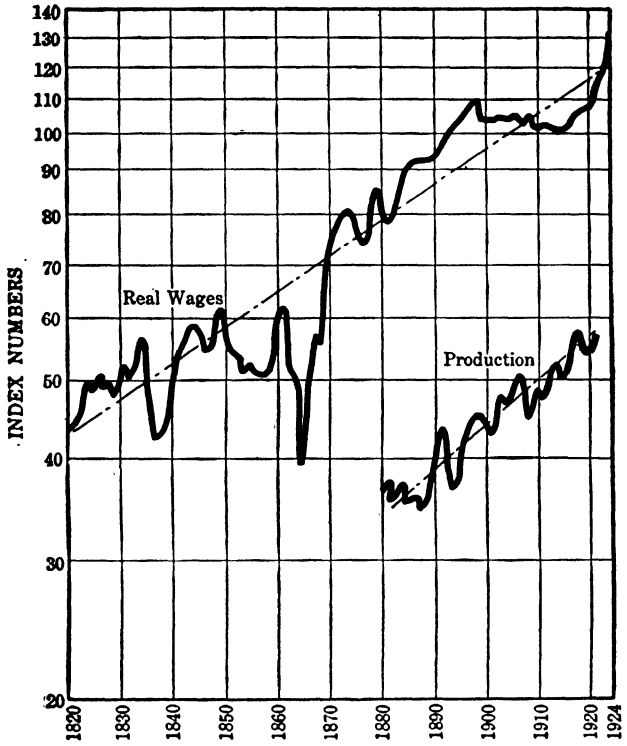


CHART 27*B*.—Course of real wages and production (1820 to 1924). This chart presents, in the form of a logarithmic curve, the trends of production and real wages. It supplements Chart 27*A*, which shows the course of money wages. (*From A. H. Hansen, "Factors Affecting the Trend of Real Wages," American Economic Review, March,* 1925.)

workers from 1890 to 1928. The following heterogeneous occupations were lumped together: workers in manufactures, employees of railroads and other public utilities, clerical and salaried workers, Federal employees, teachers, ministers, and farm laborers. Their average annual earnings were converted into index numbers of money and real earnings, with the 1914 level as the base, or 100 per cent.

The most striking features of this index of Professor Douglas, pictured in Chart 28*A*, are (1) the absence of any great increase in real earnings from 1890 to 1921, during which long period his index varied only from a low point of 96 to a high point of 108, and (2) the sharp rise thereafter

from an index of 108 in 1921 to one of 132 in 1928. Slight fluctuations took place in the prewar years, and great variations between different groups occurred during the period of wartime inflation, but there was no important, general, long-continued trend. However, the postwar gains in real earnings before 1929 were remarkable. For illustration, the index of real earnings for 1928 was almost a third above that for 1917 or 1914, which was about the same as that for earlier years as far back as 1892.

A recent survey by the National Industrial Conference Board provides a sequel to this study of Professor Douglas; it traces average weekly earnings, both nominal and real, from 1929 to 1941. The analysis of the

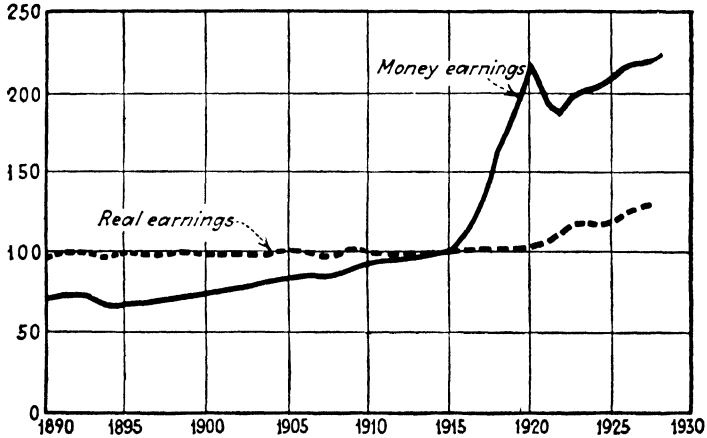


CHART 28*A*.—General trends of money earnings and real earnings (1890 to 1928) (Base —level of 1914 = 100 per cent). (*Prepared from indices of Paul H. Douglas, in "Real Wages in the United States, 1890 to 1926" and those of Douglas and Jennison, in "The Movement of Money and Real Earnings in the United States, 1926 to 1928." Quoted in "Recent Social Trends," vol.* 2, p. 820.)

National Industrial Conference Board is limited to wage earners in twenty-five manufacturing industries; that by Professor Douglas includes salaried and professional workers as well as wage earners, and other occupations in addition to manufacture. Again, the term "earnings" in the study of the National Industrial Conference Board is used with reference to average weekly and even hourly earnings, which might more properly be termed wages; the term "earnings" is used by Professor Douglas to refer to average annual earnings. Finally, the base, or 100 per cent, for the index of the National Industrial Conference Board is the average for 1923 and not that for 1914, as used by Professor Douglas.

Chart 28*B* traces the tendencies of average earnings in manufactures, as reported by the National Industrial Conference Board, from 1929 to 1941. Fluctuations in real earnings appear to be greater for these more recent years than those recorded by Professor Douglas for the earlier period from 1890 to 1928. Chart 28*B* shows the ravaging effects on

earnings of the long depression from 1929 to 1933 and of the short but sharp recession of 1937. It also indicates that just before the recession of 1937, money weekly earnings had regained their 1929 level, and real weekly earnings were above those for 1929. By July, 1941, average, monetary, weekly earnings were 27 per cent above those for 1923 and even above those for 1929, and average, real, weekly earnings were 42 per cent above those for 1923 and well above those for 1929. This survey of earnings of wage earners is more optimistic than a comparable and contemporary study made by the Brookings Institution, the results of which will be given in Section 27 of this chapter.

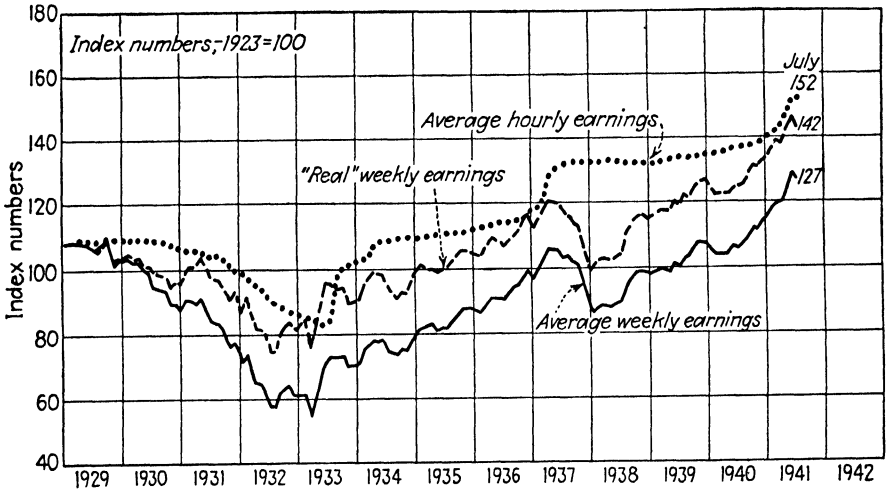


CHART 28*B*.—Wage earnings in 25 manufacturing industries. (*Courtesy of the National Industrial Conference Board, from Conference Board Economic Record, Sept.* 11, 1941.)

24. Contrasting Tendencies of Different Groups.—The average temperature of hospital patients suffering chills and fever might be normal, but such a coincidence would have no clinical significance to the doctors and nurses in attendance. Similarly, the average wage of all workers is meaningless, and the general trend of wages has little significance until it is broken down into its component parts. Statisticians are continually warning economists against lumping together heterogeneous samples displaying different characteristics or tendencies. Service incomes as a whole may be contrasted with property incomes as a whole, but each is a composite. The tendencies of earnings of salaried groups may differ markedly from those of wage earners, and those within industrial occupations may contrast vividly with those within agricultural occupations.

During wartime inflation, real wages of clerical and small-salaried workers shrank markedly; some wage earners in manufactures benefited then, because their money wages rose even faster than costs of living.

On the other hand, the postwar periods of deflation and depression, which reduced employment and earnings of many industrial workers, brought an increase in real wages to some well-entrenched salaried groups through lowered costs of living.

The study by Douglas[1] of average annual earnings showed certain common tendencies among the incomes of workers in various noncompeting groups. From 1910 to 1914 there was a period of relative stability; from 1915 to 1920, an increase in money incomes; from 1920 to 1922, a recession; and from 1923 to 1928, a marked gain in both real and money income. All groups experienced these general tendencies, but in different degrees and at different rates.

Sharp differences existed in the average annual earnings of various groups. Those of workers in manufacturing and coal mining were fairly similar, although fluctuations were sharper in coal mining than in manufacturing. Average annual earnings in manufactures rose from $558 in 1910 to $1,325 in 1928; those of workers in coal mines from $556 in 1910 to $1,239 in 1928. Employees in public utilities experienced similar gains; they were even steadier and more substantial. Average annual earnings in public utilities were continually at a higher level than those in manufacturing and coal mining. They rose from a 1910 level of $655 to a 1928 average of $1,558. The average annual earnings of clerical and salaried workers in manufactures and railroads rose slowly but steadily from $1,156 in 1910 to $2,310 in 1926. These of governmental employees also rose steadily but even more slowly from $1,108 in 1910 to $1,940 in 1928.

Finally, farm labor was in a class by itself, the lowest class. The average annual earnings of farm labor were lowest at any particular time and slowest in growth over a period of time. They rose steadily from $336 in 1910 to $810 in 1920, from which high level they fell back to $522 in 1921 and $508 in 1922, rising subsequently to an average of $587 in 1925. In comparing money earnings of agricultural workers with those of industrial workers it must be remembered that farm workers receive real income in board and lodging which is not received by industrial workers.

25. Agricultural and Industrial Income.—During the period of prosperity between 1921 and 1929, the great gains of industrial groups stood out in sharp contrast to the negligible improvement in agricultural groups. Farmers, farm owners, and farm workers suffered severely from the postwar deflation, even more severely than did industrial groups.

Chart 29 pictures the course of average hourly wages in manufacture, farm wages, farm prices, and the wholesale prices of nonagricultural products from 1914 to 1927. It will be noted that, from 1914 to 1920,

[1] Quoted in "Recent Social Trends," vol. 2, p. 817.

the indices of these four items rose rapidly and paralleled each other somewhat. The only significant difference is that the index of farm prices never rose to so high a point as the index of nonagricultural prices. Again, in 1920 and in 1921, the indices of farm prices and of farm wages fell to much lower levels than did the indices of the prices of nonagricultural goods and of manufacturing wages. The tendencies of these four items in later years were divergent. Farm wages recovered some-

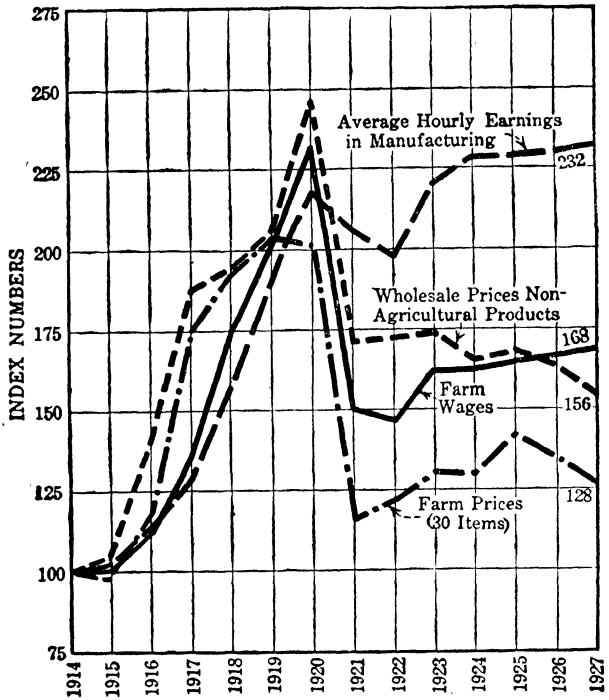


CHART 29.—Wages and prices in agriculture and manufacture (1914–1927) (base—level of 1914 = 100 per cent). (*Courtesy of National Industrial Conference Board, from "Wages in the United States*, 1914–1927.")

what from 1922 to 1927, particularly in the first year. Farm prices recovered from 1921 to 1925, but declined again from 1925 to 1927.

The most remarkable feature of this study is the fact that, in spite of a decline in the index of prices of industrial products from 1923 to 1927, the index of average hourly wages in manufacture rose. Real wages in industry, therefore, rose even more markedly than money wages. Rising wages in industry were in contrast to falling income in agriculture.

The outbreak of the Second World War, like the First Word War, inflated prices, but not so promptly and rapidly. This time, however, the prices of agricultural products rose faster and farther than those of manufactured goods.

26. Decline in Earnings during Great Depression.—The years of depression from 1929 to 1933 brought a precipitous decline in money earnings through both cuts in wages and curtailment of work.

A study of Dr. Kuznets[1] gives some striking revelations concerning the ravages of the great depression and their unequal burden. The total number of all employees declined from 35 million in 1929 to 25 million in 1932; *i.e.*, by 10 million or by 28 per cent. Within a group of selected industries the decrease in employment was 30 per cent for salaried employees, but over 40 per cent for wage earners. The decline in per capita income of salaried employees therein was from $2,567 in 1929 to $2,175 in 1932, or by only 15 per cent; whereas per capita income of wage

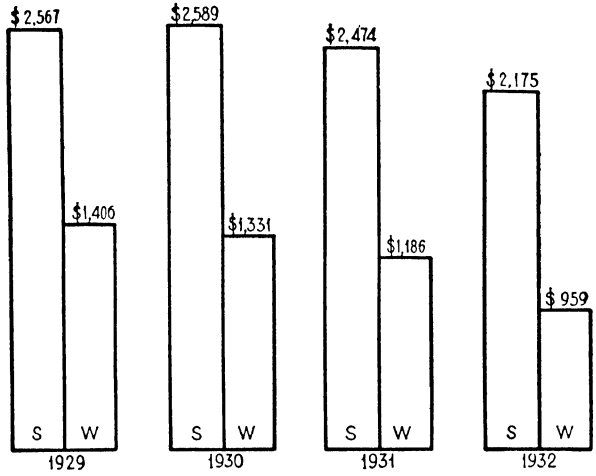


CHART 30.—Per capita income of salaried employees and wage earners in selected industries (1929 to 1932). (*From survey by Simon Kuznets of "The National Income, 1929 to 1932," National Bureau of Economic Research.*)

earners in the same industries declined from $1,406 in 1929 to $959 in 1932, or by over 30 per cent. Not only were wage earners in a lower income group than salaried employees, but also they suffered twice as great a decline in income. While the decline in salaries was not quite so great as that in cost of living and the real income of that group increased slightly, money earnings of wage earners decreased far more rapidly than costs of living, and hence their real earnings suffered.

This period of depression and deflation was in marked contrast to the prosperity and inflation of the First World War. The effects on various groups were reversed. It will be remembered that during the First World War costs of living rose rapidly. The money earnings of many skilled workers kept up with the rapid spiral of prices, but the money

[1] KUZNETS, SIMON, "The National Income, 1929–1932," National Bureau of Economic Research, *Bulletin* 49, June 7, 1934.

earnings of most salaried groups fell so far behind costs of living that their real income suffered seriously. The Second World War presented a similar threat of inflation to salaried workers with fairly stable incomes and a similar prospect of increased money income to wage earners by the combined forces of greater employment and higher wage rates.

27. Recent Changes in Wages and Earnings.—The study, "Productivity, Wages and the National Income,"[1] referred to in Chap. V, reveals contrasting tendencies of wage rates and actual earnings within recent years. In the twenties, it will be remembered, both production and productivity increased substantially and proportionately; employment was fairly constant. In the thirties, however, physical output declined somewhat, man-hours of employment decreased markedly, and productivity, or production per man-hour, increased substantially. From 1923–1924 to 1928–1929, hourly wage rates in manufactures rose 6 per cent, weekly money earnings rose 4.7 per cent, and weekly real earnings rose 5 per cent. From 1928–1929 to 1936–1937, however, man-hours of employment, which previously had been fairly steady, declined by 18 per cent. Whereas hourly wages rates increased 7 per cent, weekly money earnings decreased 13 per cent. Weekly real earnings increased by 0.9 per cent because of a simultaneous decrease in prices. Workers in manufacture were enjoying higher wage rates, but because of serious reduction in hours of work they were receiving lower earnings. They were enjoying increased leisure but not higher planes of living. Indeed, former planes of living were maintained, despite cuts in money earnings, because of almost proportionate declines in costs of living. In short, the recent increase in industrial productivity was bringing more leisure to workers and lower prices to consumers. The new industrial revolution, which had expressed itself in the twenties chiefly in the form of increased real earnings, reflected itself in the thirties mainly in the form of decreased hours of work.

The outbreak of the Second World War changed this situation. Rearmament and national defense programs altered the character of production and greatly expanded its volume. Increased production and increased productivity were sought in both agriculture and industry. The early 1930's were years of unemployment and abundant leisure, but the early 1940's were years of reemployment and strenuous effort.

28. Wages in Various Countries Compared.—The Statistical Section of the League of Nations has been making comparative studies of wages paid in various countries of the world. These findings as to relative money wages have been refined into relative real wages by allowing for differences in costs of living.

[1] BELL, SPURGEON, "Productivity, Wages and National Income," Brookings Institution, Pamphlet 23.

The unit selected for this comparison has been termed "the basketful of provisions" currently consumed by the workers. Allowances were made for local variations because of some differences in the types of goods consumed by workers in different lands. Rent also was included as an important element in the standard of living, wherever it was possible to ascertain a comparable unit.

One city was selected as typical of each of the countries investigated. London was selected by the League as its basis of comparison. Hence the average real wages of workers in that city were represented by 100 per cent. The real wages of workers in other key cities were expressed as percentages of this base.

From these findings of the Statistical Section of the League of Nations, assuming that the key cities of the various countries were representative

RELATIVE REAL WAGES IN VARIOUS CITIES IN 1928[1]
(General Average Index Numbers)

City	Based on food only	With allowances for rent
Philadelphia	192	192
Ottawa	162	160
Copenhagen	109	109
Dublin	101	110
London	100	100
Amsterdam	82	82
Berlin	66	61
Paris	59	
Madrid	55	
Vienna	47	53
Lodz	47	48
Brussels	46	49
Rome	45	47
Lisbon	30	

[1] Statistical Section of the League of Nations, January, 1928.
(Base or 100 per cent—London and the English worker.)

of conditions throughout that nation, it would appear that the real wages of the American worker in 1928 were considerably greater than those of his Canadian neighbor, almost twice those of the Irish and English worker, approximately three times those of the German and French worker, approximately four times those of the Portuguese worker. Such was the general picture in that period of relative stability just before the great depression lowered planes of living throughout the entire world. The conspicuous feature of that picture was the relatively high wage of American labor; the American worker was the best paid in the world.

Summary.—Labor may be defined as human effort in economic production, or the creation of utilities. Some labor is socially desirable, but other labor is not; some is legal, but other is illegal. Finally, some labor is gainfully employed, but other labor is not gainfully employed, even though it is productive.

The working population may be divided into numerous noncompeting economic groups, such as unskilled laborers, semiskilled laborers, skilled laborers, clerical workers, business and professional men, and captains of industry. The relative supply of labor is greater in the lower strata, where wages therefor are smaller. Passage from a lower to a higher layer is restricted by the biological fact of inherent differences in individual ability and by the social factor of acquired differences through economic inequality and variations in education and opportunity.

Society may be divided into producers and nonproducers. Nonproducers include the wealthy leisure class, at the one extreme, and social debtor groups of defectives, delinquents, and dependents, at the other extreme. Social unrest arises from the fact that many individuals with heavy family responsibilities are forced to seek gainful employment, whereas others with fewer family cares need not become economic producers.

Under the wage system the individual enterpriser directs the course of production and assembles the various factors in production. He advances to labor its share of the product of industry in the form of wages.

One of the earliest explanations of wages was the subsistence theory, which contended that the wages of workers tended to the low level of their costs of maintenance. This doctrine was based on the law of diminishing returns from land and the Malthusian principle of population. The subsistence theory of wages was modified into and succeeded by the wages-fund theory, which regarded wages as a drain from the pool of circulating capital by workers for their maintenance. Wages were the ratio between capital and population.

The neoclassical explanation of wages is the marginal-productivity theory, which regards the wages of any labor group as an approximation of the marginal product of that type of labor. The marginal product can be measured by the loss attributable to the subtraction of one worker from a particular combination of all factors jointly engaged there in production. The specific-productivity theory is an unwarranted extension of the marginal-productivity theory; it claims to isolate the product of labor and attempts to justify the present system. Both productivity theories are value analyses; the wages of any labor group depend on its supply and demand factors.

Some critics of neoclassicism have stigmatized the marginal-productivity explanation as a mere commodity theory, which views the determi-

nation of wages in the same fashion as the determination of the prices of commodities. Other critics point out the importance of the bargaining factor in wage determination.

The reconciliation of productivity and bargaining theories of wages seems possible. The marginal product of labor is merely the upper limit, beyond which the employer will not go, even though he may pay labor less than its marginal product because of the ignorance, immobility, or lack of organization among some groups of workers. The lower limit of wages is cost of subsistence or minimum standard of living, which may be protected by the state through minimum-wage laws. Between these upper and lower limits, collective bargaining can and does affect the determination of wages.

Real wages are nominal or money wages refined in terms of changes in costs of living. Money wages gradually adjust themselves to changes in the general price level, but there is a serious lag, which is greater among salaried workers than among wage earners and greater among unorganized laborers than among the organized.

Wage rates are hourly or daily payments, or rates for piecework. Earnings are payments for a longer period of time or for total amount of work done. Reduction of employment during a particular month or year converts high wage rates into low actual earnings.

The existence of various noncompeting groups makes a general trend of wages difficult to establish; different labor groups show marked contrasts and different tendencies.

Long-run studies show a general trend toward increased real wages. The worker does seem to be sharing in the rewards of increased productivity. Despite the persistence of poverty and economic inequality, there is little evidence to support the Marxian contention that the lot of the worker is becoming worse and worse.

Real wages apparently gained somewhat in the decades of falling prices in the second half of the past century; they declined slightly in the two decades of rising prices after 1896. During the First World War prices rose even more rapidly. Some groups of wage earners received additional money earnings equal to the increase in costs of living, but other groups did not.

The postwar decade was one of increased industrial production and of relative price stability following the collapse of commodity prices in 1920. Although farmers suffered, most service incomes, as well as property incomes, increased. Unprecedented gains in the real wages of workers were achieved before the crash of 1929.

The great economic depression from 1929 to 1933 was characterized by a severe decline in money earnings. Real earnings also declined but not so seriously because of the decrease in prices and costs of living. The

following years of recovery were featured by shorter hours, higher wages, and slightly lower money earnings. The national defense program of the Second World War changed this situation; a repetition of some economic experiences of the First World War threatened.

Questions for Discussion

1. *a.* Define labor. Distinguish it from play.
   b. Define economic production. Distinguish from gainful employment.
2. Explain the meaning and significance of noncompeting labor groups and the social pyramid.
3. *a.* Explain the meaning of the wage system.
   b. Show its relationship to capitalism.
4. *a.* Explain the subsistence theory of wages.
   b. Show its relationship to the law of diminishing returns and the Malthusian principle of population.
5. *a.* State the wages-fund theory.
   b. Criticize it.
6. *a.* State the marginal-productivity theory.
   b. State the specific-productivity theory.
   c. Wherein are these two theories similar?
   d. Wherein do they differ?
7. *a.* Show the significance of the bargaining factor in wage determination.
   b. Can it be reconciled with a productivity theory? If so, how? If not, why not?
8. *a.* What reason did Marx have for his belief that the lot of the workers was becoming worse?
   b. What evidence do you have to the contrary?
9. *a.* Distinguish between nominal wages and real wages.
   b. Differentiate between wages and earnings.
   c. Explain the concept of social wages.
10. *a.* Show the effects of rising and falling prices on different economic groups.
    b. Explain compensating influences.
11. *a.* Contrast the gains and losses of wage earners and salaried groups during the past generation.
    b. Do so also for industrialists and farmers.
12. *a.* Show the divergent tendencies of different service incomes during the First World War?
    b. To what extent, if at all, were these experiences repeated during the Second World War?
13. *a.* Show extent of gains in real wages of workers between 1922 and 1929.
    b. Suggest reasons for these gains.
14. *a.* Show the effects of the depression of 1929 to 1933 on wage rates and actual earnings, both real and nominal.
    b. Trace these tendencies through the following years of recovery.

Topics for Investigation

1. Marxian or labor theory of value.
2. Hobson's theory of wages.
3. Ricardian theory of wages.
4. Theory of wages of J. S. Mill.

5. Wage theory of J. B. Clark.
6. Wage theory of Alfred Marshall.
7. Taussig's discount theory of wages.
8. King's analysis of wage trends, both his method and conclusions.
9. Hansen's survey of wage trends, both method and conclusions.
10. Analysis of wages by Paul Douglas, both method and conclusions.
11. Recent wage studies of the National Industrial Conference Board.
12. Conflicting tendencies of wages during First World War.
13. Real and money wages during the great depression.
14. Wage rates and actual earnings during the recovery period.
15. Wages and earnings during the Second World War.

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CHAPTER VIII

POVERTY AND SUBNORMAL PLANES OF LIVING

INADEQUACY OF FAMILY WAGES

1. Nature of Poverty and Pauperism.—Poverty is one of the oldest and most persistent of economic maladjustments. The prophets of the Old Testament indicted the rich for their oppression of the poor. Revolution and social unrest still have their seeds in poverty and economic inequality.

It is necessary that our terms be defined at the outset. That class in society with the smallest income, and consequently with the lowest plane of living, is usually referred to as *the poor*. *Poverty*, however, implies not only little income and low plane of living, but insufficient income and inadequate plane of living; *i.e.*, below the minimum standard of decent living then and there envisioned.

The advance of civilization has increased economic prosperity and raised planes of living for all groups. The well-to-do classes of modern nations live in a state of luxury undreamed of by princes of antiquity. Likewise the poor of today enjoy comforts and conveniences which were not possessed by the miserable masses of an earlier society.

At any given time and place there are the comparatively rich and the comparatively poor. In spite of economic progress, the poor, in the sense of those in the lowest economic group, have persisted because of the continuation of economic inequality and the stratification of society into various income groups. The poor, using that term in its comparative meaning, we shall always have with us, unless society should be modeled on some communistic plan. The elimination of the poor in the sense of the lowest economic group is as impossible as the elimination of the last train coach, which is frequently the victim in railroad wrecks.

Poverty is the condition of those individuals or families whose incomes are so small, and whose planes of living consequently are so low, that neither health nor working efficiency can be maintained. Although standards are relative, it is possible at any given time and place to determine a minimum standard of decent living. Thus, social pathologists regard poverty as a social disease and the poor as abnormal members of society. In this sense, poverty can be reduced, if not eliminated.

Paupers are those individuals in almshouses or those families in their own homes who receive assistance from charitable organizations. The pauper class is part of the social debtor group, because pauperism is

essentially a state of dependency. Poverty and pauperism are not synonymous, and those individuals who live below the poverty line but who are too proud to ask for help should not be referred to as paupers. There is a strong tendency, however, for the poor to become paupers. Indeed, poverty has sometimes been compared with a narrow and treacherous footpath around the morass of pauperism into which misfortune can readily plunge the poor.

The treatment of paupers and other members of the social debtor groups belongs within the domain of sociology. But the economist, as well as the sociologist, must concern himself with the problems of subnormal planes of living and inadequate wages. Objective causes of poverty, such as low wages and unemployment, are definitely within the field of applied economics.

2. Extent of Poverty and Pauperism.—The extent of poverty is difficult to determine, for there are no absolute standards of living. Nevertheless, it is apparent that poverty is widespread and persistent; it is chronic, as well as acute. Although varying in intensity from time to time and from place to place, it never entirely disappears. Economic progress brings more comforts and higher planes of living, but such progress brings still higher standards of comparison.

Two of the earliest investigations of poverty were made over a generation ago by Booth in London and by Rowntree in York.[1] These pioneer studies revealed that 30.7 and 27.8 per cent, respectively, of the people of these two English cities were then living in poverty. If these conclusions were true and typical, from one-fourth to one-third of the inhabitants of English cities at the turn of the last century were living under conditions of poverty.

That the situation has materially improved in British cities is attested by two more recent studies.[2] In 1914, only 12.6 per cent of the cases studied had incomes insufficient to maintain the minimum standard of living prescribed by Rowntree, and, in 1925, from 3.6 to 6.5 per cent of the cases then studied were below the same standard. The extension of comprehensive programs of social insurance, rather than increased national prosperity, accounted for this reduction of poverty in the United Kingdom.

As a result of a similar pioneer investigation in our own country, Robert Hunter[3] estimated in 1904 that the proportion of poverty in our large cities and industrial centers rarely fell below 25 per cent. For the

[1] BOOTH, C., "Life and Labour of the People," vol. 2, chap. 2, 1891.
ROWNTREE, B. S., "Poverty: A Study of Town Life," chaps. 4 to 5, 1904.
[2] BOWLEY, A. L., and M. H. HOGG, "Livelihood and Poverty," 1914.
"Has Poverty Diminished?" 1925.
[3] HUNTER, R., "Poverty," 1904.

country at large he estimated that the poverty group comprised from 14 to 20 per cent of the entire population. Although the poverty rate may be smaller in rural sections than in urban centers, recent investigations make this former assumption doubtful. Urban poverty is rather conspicuous, but there is much dire poverty hidden away in many obscure rural communities. Hence the expression "the submerged tenth" is an understatement, rather than an exaggeration, of the extent of poverty.

The new industrial revolution in the United States, explained previously, was lauded as the conquest of poverty. But increased industrial efficiency was not accompanied by increased social security. The great depression from 1929 to 1933 was productive of an unprecedented volume of poverty, pauperism, and relief work, public as well as private.

Within recent years the expression "one-third of a nation" has been substituted for the former epithet "the submerged tenth" to refer to the poor group within the United States. It took authority, if not origin, from the 1938 report to President Roosevelt of the National Resources Committee on the distribution of the national income for 1935–1936. The lowest third of the population was made up of families and consuming units receiving less than $780 each for that year. The average per family income within this poorest third of the nation amounted to only $471 a year. Hence it would seem that most or all of the poorest third of the families of our nation were then living in poverty, despite the fact that the national income was adequate in size to abolish poverty, as attested by the fact that the national income for 1935–1936, amounting to $59 billion, would have averaged $1,622 for each family and $1,151 for each individual consumer.

The National Resources Committee further reported that although almost 4 million families in the lowest third were dependent on relief for at least a part of the year, fully 70 per cent of the total number, that is, a little more than 9 million individuals in the poorest third, received no assistance of any kind from a relief agency.

The extent of pauperism is as difficult to determine as that of poverty. Many individuals and families receive various forms of assistance, of which no record is kept and little recognition is given. For generations past, a vast army of dependents have been cared for by outdoor relief and informal assistance. Societies for the organization of charity have vainly attempted to bring order out of this chaos, in the belief that one of the first essentials of scientific method is the keeping of complete and accurate records.

Indoor relief has been almost as haphazard as outdoor relief. Institutional records of admission and dismissal have been poorly kept. The almshouse has frequently sheltered such divergent groups as homeless old folks and helpless children, the crippled and the insane, the infirm and the

shiftless. Recent United States censuses have placed the number of dependents in our various institutions at about the million mark, but the total number of paupers and semidependent individuals must surely approximate several millions.

3. Social Attitudes toward Poverty.—Almsgiving has long been regarded as a religious duty, and the profession of begging is of ancient origin. The old attitude toward poverty was similar to that toward war, *viz.*, that it would always exist because it always had existed. A similarly fatalistic view of disease long prevented progress in the healing arts and medical sciences.

The attitude of modern social science is that philanthropy is necessary for the alleviation of temporary distress, but the elimination of poverty is the ultimate ideal. The same scientific spirit which has reduced the ravages of smallpox, yellow fever, and other physical diseases is now attacking the social disease of poverty. It seeks the reduction, if not the elimination, of poverty through an intelligent and concentrated attack on its causes, instead of the continuation of indiscriminate almsgiving. Social service, like health service, aims not merely at giving relief to all sufferers, but also at promoting decent standards of living and restoring economic independence.

4. Causes of Poverty.—Many social reformers have made the error of assuming that poverty has but one cause. Thus Malthus believed that poverty was due to the pressure of population on the food supply; his "Essay on Population" outlined various checks on the growth of population. Karl Marx found his explanation of poverty in the ownership of the instruments of production by a capitalistic class and the resulting dependence of the proletariat on the *bourgeoisie;* socialism, therefore, was the remedy he prescribed in "Capital." To Henry George, poverty was the result of individual absorption of economic rent and the unearned increment from land; in "Progress and Poverty" he gave single tax and the elimination of the landlord as his answer to the problem of poverty. However ingenious these single-cause explanations may be, there is *no single cause* of poverty, for this social disease has a combination of causes. Moreover, these causes are not simple but complex; not immediate but remote. For example, such causes of poverty as unemployment and disease, have, in turn, their own causes. Finally, these relationships are often functional; many causes of poverty are also results of poverty.

Our present purpose is merely to show the nature of this socioeconomic problem of poverty and to outline various groups of contributory causes. The familiar division into *personal and environmental causes* is helpful, but it represents merely different ways of classifying the same causal factors and different attitudes toward the same problem. Thus sickness may be the individual expression of an environmental factor, for example,

typhoid fever from poor sewage disposal or pellagra from inadequate diet. Human sympathy engenders a personal consideration for the recovery of sick individuals, but scientific interest expresses itself in a study of causes and in efforts toward elimination of the disease. Similarly, individual cases of poverty indicate its incidence rather than its causes, *i.e.*, what individuals constitute that group, if a given amount of poverty is assumed. For an explanation of its existence, one must turn from the question why some particular persons or families are poor, to the broader analysis of impersonal factors and objective causes of poverty in the environment.

Environmental causes may be divided roughly into those resident in the *physical environment* and those resident in the *social environment.* Obviously, the natural resources of a country condition its economic prosperity. Certain lands, such as Scotland, Armenia, and Arabia are poor by nature. Other countries are poor because of inadequate social adjustment and failure to use adequately or properly what natural advantages they do possess. Just as the economist relinquishes individual case studies of poor people and problems of family rehabilitation to the sociologist, just so he leaves a detailed consideration of the natural resources within the physical environment to the geographer. He is busy enough with his own task of analyzing those causes of poverty resident in the economic organization.

5. Objective Causes of Poverty in the Economic Organization.—By improved methods of production and advanced industrial techniques, Western nations have made a better adjustment to their physical environment than Eastern lands, where dire poverty continues. Active adaptation and technological progress enable a dynamic society to keep ahead of the Malthusian specter of starvation. National prosperity is basic to the amelioration of group poverty. National prosperity, it will be remembered, is determined alike by natural resources and by degree of conscious adjustment; in both these respects the United States has been fortunate. Chapter V explained our recent increase in productivity and demonstrated that America may justly be called a "prosperous" nation. Distribution, however, is as vital as production; poverty can continue in spite of so-called "national prosperity." Chapter VI pointed out that, despite our tremendously increased productivity before 1929, serious economic inequalities persisted. The preceding chapter outlined wage tendencies; the present chapter will show the causal significance of inadequate wages in the problem of poverty.

Low wages, then, are an important cause of poverty. The combined wages of all workers in some families are hardly sufficient to maintain decent standards of living. Later sections of this chapter will be devoted to an analysis of the wages of large groups of adult male workers in relation to minimum costs of living for a family. It will be shown that

the wages of many heads of families have been insufficient of themselves to support in comfort, or even in decency, a wife and several children.

Unemployment is another economic maladjustment which reduces still further the meager earnings of many workers and forces some of them within the poverty and pauper groups. The business cycle brings recurrent periods of economic depression with reduced and decreased earnings. Seasonal unemployment also is productive of poverty and increased appeals to relief organizations. Strikes and other industrial disturbances have similar effects. These problems will be treated in later chapters. They all impinge on our present, far-reaching topic of poverty.

Changes in industry, such as introduction of machinery and improvement of processes, often work considerable hardship on certain groups of workers, even though their general and long-run effects are beneficial. This economic adjustment may be illustrated by the old industrial revolution in England and the new industrial revolution in the United States. Economic progress is frequently achieved by such human costs as unemployment, which, in turn, brings poverty.

A bad system of land tenure, such as that in England during the inclosure movement, in Ireland in the days of the "rack rent," or in Mexico in the era of peonage, also is productive of poverty. The United States was fortunate in its former abundance of free land. Indeed, the problem of poverty in this country can be said to date from the elimination of the frontier and the exhaustion of free land in the West. The rapid industrialization of the United States in the period following the Civil War was mitigated by the possibility of the displaced workers' taking possession of a homestead and engaging in farming. Such an opportunity, however, is no longer open to the displaced workers of the new industrial revolution.

6. Economic Inefficiency and Waste.—The growth of population must be accompanied by an increase in industrial efficiency, if national prosperity is to be maintained. In the long run, our chief weapon against poverty is economic productivity, for it determines the national income and planes of living. Low productivity means poverty, which, of course, is the absence or opposite of prosperity.

The inefficiency, as well as the improvidence, of labor is a cause of poverty. But the wastes of our present competitive system and the incompetence of management also are important. The Federated American Engineering Societies has placed the responsibility for more than half the existing waste in industry at the door of management rather than of labor.[1] The consumer also is to blame. Arbitrary changes in fashion result in waste of material and unemployment.

[1] Committee on the Elimination of Waste in Industry of the Federated American Engineering Societies, "Waste in Industry," p. 9, 1921.

The inefficiency of labor is due to individual incompetence, indifference, and shiftlessness, as well as to such group policies as limitation of output. But the worker has had bitter experience that increased productivity may be accompanied by a cut in the rate of wages, instead of an increase in earnings.

The waste and inefficiency of our economic system are obvious and continuous. Perishable commodities are permitted to spoil by some enterprisers, who prefer to waste these goods rather than to suffer from the reduction of values which would result if a surplus of consumable goods were thrown on the market. The recent agricultural reconstruction program frankly rewarded restriction of production, and even destruction of product, rather than increased productivity. In view of such deficiencies in our modern economic system, it may be well to be less severe in our criticism of uneconomic labor policies and practices, such as soldiering on the job in an attempt to make work and thus to avoid unemployment.

7. Objective Causes of Poverty in the Social Environment.—Inability to give numerous children proper educational advantages perpetuates the problem of low wages in the lower income groups. Their birth rate is generally higher than that of richer economic groups, which can better afford large families. The tendency of population to grow from the bottom more rapidly than from the top explains the social pyramid of noncompeting economic groups, pictured in the preceding chapter. Birth control and the restriction of immigration are offsetting tendencies; public education and social security programs are ameliorating influences.

Unhealthful surroundings, like insanitary and dangerous working conditions, are productive of sickness and death of the family breadwinner. The relationship is a functional one, common in many social problems; the result is also a cause. Low planes of living, ill-health, industrial inefficiency, and low wages constitute a vicious circle. The public-health and -housing movements are attacking poverty by breaking through this vicious circle at those particular points.

City slums and congested industrial areas are as dangerous to social institutions as to individual health. The degeneracy of family life is caused by, accompanied by, and results from the decline of economic ideals of thrift and industry. Social workers have discovered that the restoration of a healthy family life is essential to the reclamation of economic independence.

Educational progress is important in the modern war against poverty. Statistics show a high rate of illiteracy and general ignorance among the poor and paupers. The education of a normal individual, like that of a subnormal person, should point toward the ideal of economic independence. Lack of industrial training and vocational guidance in our

schools has been a contributory cause of poverty and crime. Until comparatively recent times, it was difficult for a boy to receive training in a trade at public expense unless he had committed a crime and was sent to some reformatory.

Religious beliefs may exalt poverty as a holy estate instead of deploring it as a sordid condition; it may turn men's minds from the material business of making a living to spiritual introspection. It may stimulate unwise philanthropy instead of scientific relief measures. As long as indiscriminate giving to professional mendicants flourishes, begging will be more profitable than working.

Defects in the political, as well as in the economic and social, environment produce poverty. Corrupt or inefficient government discourages industry and thrift on the part of its people. Vested interests may prevent the passage of desirable legislation or the adequate enforcement of existing laws. The ward boss, rather than organized charity, may give coal and wood to the voter who is out of work. But the citizen whose vote is purchased so easily is sacrificing ultimate social welfare to his own immediate advantage.

Legislation is no panacea for all social ills; far more is necessary than wise laws and their proper enforcement. Nevertheless, they form an essential part of any scheme of social reform. The attitude toward government is changing, and government's sphere of activity is widening. Increasing industrialization and the growing interdependence of all members of society require labor legislation, as well as laws for the protection of consumers and investors. The former attitude of *lasissez faire*, or rugged individualism, has been abandoned, and government is now actively interfering with working and living conditions. It has attempted to regulate such matters as hours and wages and to prevent the exploitation of women and children. It has sought to eliminate causes of poverty and to raise subnormal planes of living by such drastic devices as minimum-wage laws. These programs of government will be treated in the following part of this book.

8. Subjective Causes of Poverty.—There are personal, as well as objective, causes of poverty; a complete analysis of this problem requires an examination of the factor of heredity in addition to that of environment. Poverty is an acquired status, not hereditary; but physical or mental degeneracy, to which poverty may be due, can be inherent. This fact will help explain why pauperism runs in some families from one generation to another.

Inherent degeneracy or feeble-mindedness may express itself in various ways in successive generations, such as in pauperism, crime, drunkenness, or in other forms of vice. Although none of these social ills is strictly hereditary, there is some inherent weakness which produces them. Cer-

tain stocks in our population are biologically inferior, and their representatives possess little physical stamina or mental strength. Other individuals in the social debtor classes may be regarded as inferior variations of apparently normal stocks.

The role of feeble-mindedness in the problem of poverty and programs of social reform was stressed by Dr. Goddard.[1] He estimated that half the inmates of almshouses were feeble-minded. As feeble-mindedness is hereditary, not acquired, the elimination of the feeble-minded involves a program of eugenics, rather than one of education. The segregation of the feeble-minded and other individuals of degenerate stock into custodial institutions and the prevention of their propagation of legitimate or illegitimate children will greatly reduce the amount of pauperism and poverty.

Disease is another important cause of poverty. Dr. Devine[2] stated that 75 per cent of poverty might be attributed to disease, and not 25 per cent, as was commonly supposed. It is a conservative estimate that from 25 to 40 per cent of all relief cases indicate sickness as the chief or an important contributory cause. Sidney and Beatrice Webb, writing of 3 or 4 million destitute persons in the United Kingdom, declared that "with regard to at least one-third of these—we might almost say one-half —the recruiting sergeant who brings them in is sickness, the sickness that so far as concerns three-fourths of the population, we have proven to be preventable."[3]

Although the importance of intemperance as a cause of poverty has been exaggerated, it cannot be ignored. Crime and imprisonment of the breadwinner are other factors. Desertion by the head of the family also results in numerous cases of dependency. Death of the main support appears in many relief cases and indicates the desirability of widows' pensions. Old age is a still more frequent cause of pauperism; it affords a powerful argument for old-age pensions.

Shiftlessness and laziness are individual characteristics which contribute to poverty and pauperism. Many such cases, however, were found to be due to an undervitalized physical condition and not to mere laziness. The alleged shiftlessness of a portion of our population was discovered to be caused by the presence of hookworm in their local physical environment. Malaria may play a similar role in a mosquito-infested section.

Prosperity is conditioned both by a healthy and stimulating climate and by abundant natural resources. Poverty likewise is caused as much by an unhealthful or enervating climate as by the niggardliness of nature.

[1] GODDARD, H. H., "Feeble-mindedness."

[2] DEVINE, E. T., "Misery and Its Causes."

[3] WEBB, SIDNEY, and BEATRICE WEBB, "The Prevention of Destitution."

Neither prosperity nor poverty can be explained merely as results of individual virtues or vices. Physical and social environments, as well as physical and social heredities, are fundamental.

9. Standards of Living and Planes of Living.—Standards of living express ideals of consumption; planes of living measure realities of consumption. A *standard of living* may be regarded as the quantities and qualities of food, shelter, clothing, and various other commodities and services which an individual, a family, or a group consider necessary to happiness and welfare. A *plane of living* is viewed as those economic goods which are actually consumed by individuals and definitely within their family budgets.

Standards of living are commonly estimated in terms of money; experts speak of the financial costs of maintaining various standards of living in different times and places. These estimates are generally based on family instead of individual expenditures, for the family is the usual unit of economic consumption.

Economic goods may be divided roughly into three strata, *necessities*, *comforts*, and *luxuries*. These gradations are not sharply distinguishable but gradually fade into each other like the colors of the spectrum. Moreover, what is a necessity to one individual may be regarded as a luxury by another. The plane of living of an unskilled laborer may include little more than the bare necessities of life, while that of his employer may include numerous luxuries. There is one plane of living for Mrs. Wiggs of the Cabbage Patch and another for her friend the Christmas Lady. Between these two extremes are innumerable variations and gradations, involving all degrees of comforts.

Planes of living vary not only among different income groups, but also among different nations. Thus we hear of an American plane of living, as compared with a European or a Chinese plane of living. Planes of living also change from age to age, and the comforts of a middle-class family in England today are very different from those of Elizabethan gentle folk.

10. Relative but Material Character.—Standards of living are neither rigid nor absolute. In both its qualitative and quantitative aspects a standard of living is a relative concept. There is not one standard of living, but there are many. They vary greatly from time to time and expand as an individual or a group acquires additional desires and purchasing power.

Standards of living are material and social rather than imaginative and individual in origin. Although each consumer has personal tastes and desires, most economic wants arise from the physical and social environments. For illustration, standards of living in cold countries include furs and fats; wise consumption in warmer climates takes the

form of lighter clothing and food. Social institutions, however, dominate economic consumption as rigorously as the geographical environment. Mohammedans in the Near East wear fez caps and turbans; the European prefers a sun helmet in the tropics. The English drink tea, but the Norwegians like coffee, despite their similar physical environments.

A standard of living is essentially those things to which we are accustomed. Dissatisfaction and unrest come only after a comparison with different and higher standards of living. Thus the savages of Africa never realized their blackness until the white man appeared in their midst. People do not miss what they have never enjoyed. If it were not for this fact and for the existence of tremendous mental and social inertia, economic unrest would be more acute and political revolutions more common. It is significant that most revolutions have been preceded by an intellectual awakening, although precipitated by acute dissatisfaction with existing conditions.

Poor people may be happier than rich people, because happiness is essentially a state of mind rather than a stage of material well-being. Hence the philosopher may object to a commodity measurement of welfare and insist on psychological tests. The economist, however, finds it impossible to measure any such subjective concept as happiness. Moreover, for most individuals wealth is one very important element in welfare. Consequently, the economist is forced to content himself with measuring planes of living in terms of commodities and services consumed. Prosperity is commensurable but happiness is not, wealth is definable but welfare is not; hence our materialistic concept of standard of living. Although admitting the fact that man does not live by bread alone, the economist relinquishes spiritual concepts for analysis by other students especially interested in ethics and aesthetics.

11. Conditioning Elements.—Planes of living are influenced both by what one desires and by what one can purchase. Wants are on one side of the scale and wages are on the other side. Differences in income produce contrasts in planes of living.

The general price level is a third conditioning element. Thus economists differentiate between real wages and money wages. A miser, like Silas Marner, might find pleasure in counting his gold, but what a normal individual desires are the commodities or services which he can enjoy.

Price inflation requires an equivalent increase in money wages if the customary standard of living is to be maintained. It has been said that prices go up the elevator, while wages slowly climb the stairway. On the other hand, price deflation, which increases the purchasing power of the workers' wages, is often accompanied by an economic depression with consequent loss of employment. Because of the close connection between

price levels and standards of living, Professor Commons has called the fluctuation of the currency our greatest labor problem.

12. Characteristics of Economic Wants.—Just as there are wide variations in income, so there are great differences in individual desires. The satisfaction that various people receive from the consumption of the same commodity or service differs enormously. Individual tastes vary within socially prescribed and geographically conditioned standards of living. For example, civilized man wears clothing; although its general character depends on the physical and social environment, an individual may choose his own suits. Again, there are personal likes and dislikes for particular articles of food produced within a given area and approved by the customs of the group.

The measurement of standards of living is rendered difficult by the diversity and varying intensity of human wants. One workman may regard tobacco as a necessity and curtail his consumption of clothing in order to gratify this desire. On the other hand, a factory girl may regard silk stockings and fine clothes as essential parts of her standard of living; consequently she may stint her food allowance in order to purchase stylish garments. One successful businessman accumulates rare works of art, while another breeds race horses or buys yachts.

Human wants have great expansibility, as well as wide diversity. As the income of an individual increases, his wants generally develop simultaneously and proportionately. The newly rich audibly wonder how individuals can live without certain things to which they themselves have scarcely become accustomed. Civilization has brought to primitive peoples formerly unknown desires, such as those for alcoholic liquors and cigarettes, cotton cloth and leather shoes, radios and talking machines. The new freedom has brought to modern women the habit of smoking cigarettes, which commercial advertising pictures as fashionable.

In the continued consumption of the same economic good, the principle of diminishing utility operates. After a certain point has been reached, additional units of that good yield less and less gratification until complete satisfaction has been reached. Hence an increasing variety of economic goods is desirable in order to offset diminishing utility from the long-continued consumption of the same good.

13. Family Budgets.—Just as a nation or a city must balance its expenditures against its receipts from taxation, so the average family must balance its purchases against the family wages. Any attempt to do this systematically may be called "making a budget."

Economic consumption was formerly neglected, but in recent years excellent studies have been made of family budgets. The commonly accepted unit of measurement is the family of five or four, consisting of father, mother, and three or two dependent children.

The largest single item in most family budgets has been found to be food costs. Provisions claim almost half the income of the poorest families, but only a small portion of the income of wealthy families, even though they enjoy more and better food. Shelter is the next largest item in the family budget. The amount spent for rent increases as we go up the social scale, but its proportion of the total income is more constant than food costs. Expenditures for clothing generally rank third. Rich people spend absolutely more but a relatively smaller portion of their income for clothing than do poor people. Transportation may or may not be an important item in the expense account, according to the locality considered. Heat and light are other necessary items in costs of living. The amount left for all other purposes varies from nothing in the case of the very poor to almost half the income of those in moderate circumstances and to well over half the income of rich people.

14. Engel's Law.—As family income increases, expenditures for the necessities of life, such as food, shelter, and clothing, increase, but the percentage of the total income spent for such purposes declines. With the increase of income, the proportion, as well as the amount, spent for all other purposes steadily expands. Indeed, this margin of expenditure above the actual necessities of life is regarded as the test of a desirable standard of living. In it are included expenditures for recreation, amusement, insurance, saving, and incidentals. Poor people spend absolutely less but relatively more for the necessities of life than do rich people. They have little margin of expenditure above that for bare necessities.

A German statistician by the name of Engel, in his study of Prussian family budgets, was the first student to point out the varying proportions of income spent for necessities by different income groups. Hence, the relationship just described is known as "Engel's law."

15. Differences in Planes of Living.—A study of family budgets reveals other contrasts in planes of living. As a rule, planes of living of native communities are higher than those of foreign born, and planes of white communities are higher than those of colored. These differences in planes of living reflect chiefly differences in wages.

Within the same income group, however, there are striking differences in family budgets. Some immigrant groups, for example, spend relatively more on food and others relatively more on clothing. Certain groups are improvident, while others are parsimonious. Within a great city there may be immigrant colonies and Negro settlements which afford interesting comparisons in planes of living. Each group clings to its old customs, as can be seen in characteristic foods, clothing, and forms of recreation. The new generation shows its modernized and Americanized character by corresponding changes in its planes of living.

City and country afford another contrast. City workers formerly spent a relatively greater portion of their wages on clothing than did those in the country. Thus a comparative study of family budgets would show different sets of consumption values. In general, costs of living in the country are lower than those in the city. Consequently a higher plane of living can be maintained in the country on the same monetary income. A small frame house can be rented in the country for the amount needed for a few rooms in the city. Again, the cost of some foods is relatively lower in the country. The centralization of modern marketing facilities, however, has tended to make the purchases of other foods not only more convenient but actually cheaper in the cities than in the surrounding country, where these foods are produced but neither processed nor packed.

CLASSIFICATION OF PLANES OF LIVING

Income group	Income range		Percentage of total		Percentage of income expended for particular items					Percentage saved or needed from outside sources
	Families	Individuals	Population	Income	Food	Shelter	Clothing	Other items	Total	
Wealthy.....	$25,000 and over	$15,000 and over	0.6	19.7	2.2	12.0	5.5	29.0	48.7	51.3
Well-to-do.....	$10,000 to $25,000	$5,000 to $15,000	1.8	9.4	8.5	20.3	9.2	26.4	64.4	35.6
Comfortable.....	$5,000 to $10,000	$2,500 to $5,000	5.9	13.9	14.7	25.6	11.6	26.5	78.4	21.3
Moderate circumstances.	$3,000 to $5,000	$1,500 to $2,500	13.7	18.8	21.7	25.1	13.1	24.6	84.5	15.5
Minimum comfort	$1,500 to $3,000	$750 to $1,500	35.7	26.5	30.9	25.2	14.6	20.2	90.9	9.1
Poverty subsistence.	Under $1,500	Under $750	40.6	11.7	49.5	36.0	17.4	22.0	124.9	−24.9 deficit

Adapted from Ely, Richard T., "Outlines of Economics," 1937 ed., p. 137, Macmillan, New York, 1937. Data derived from tables in "America's Capacity to Consume," pp. 87–88, Brookings Institution, Washington, 1934. Study covers 27,474,000 families and 8,000,000 unattached individuals, 1929.

16. Changes in Planes of Living.—Studies of American family budgets show marked changes as well as wide differences in planes of living. Workmen and their dependents have been purchasing an increasing amount of new commodities and services, in addition to the customary necessities of life. A comparison between older and later studies of family budgets in the lower income groups shows a relative decline in expenditures for food and rent and a relative increase in expenditures for clothing and miscellaneous commodities.

17. Classification of Planes of Living.—Classification of planes of living is arbitrary but revealing. A *pauper-poverty plane* of living represents a condition of dependency and deprivation. A *minimum of subsistence level* implies merely an animal existence with just enough to satisfy the chief physical wants. It is a theoretical concept to which economists have sometimes resorted. The *minimum of health and comfort plane* assumes income sufficient to maintain living and working efficiency. It has also been termed a *normal standard of living* or a *standard of health and decency.* Above these subnormal and normal planes of living are the supernormal planes of the comfortably fixed. the well-to-do, and the rich living in luxury.

The table on page 180 classifies various planes of living and analyzes consumption expenditures of different economic groups. It clearly illustrates Engel's law.

18. Minimum Standard of Living.—Attempts have been made to draw up minimum standards of living, definitely expressed in terms of essential commodities and services. The *quantity budget,* for example, gives amounts and kinds of food, shelter, clothing, and miscellaneous items necessary for the maintenance of a desired standard of living; the *cost budget* expresses the same items in monetary terms.

MINIMUM STANDARD OF LIVING

Item	December, 1914		Percentage increase in cost 1914 to 1919	December, 1919	
	Amount	Percentage		Amount	Percentage
Food	$ 430	43.0	91	$ 821	42.0
Clothing	130	13.0	198	387	19.8
Rent	180	18.0	25	225	11.5
Fuel and light	50	5.0	52	76	3.9
Furniture	50	5.0	175	138	7.1
Miscellaneous	160	16.0	92	307	15.7
Total	$1,000	100	95	$1,954	100

Monthly Labor Review, July, 1920, p. 3.

A pioneer study of the minimum quantity standard of living, made by the U. S. Bureau of Labor Statistics, was based on a family of five (to be exact, 4.9 persons, or the equivalent of 3.3 adults).[1] Its require-

[1] U. S. Bureau of Labor Statistics, "Tentative Quantity and Cost Budget," p. 6. See also *Monthly Labor Review,* June, 1920, pp. 1–18.

ments as to a minimum quantity standard of living may be summarized as follows: (1) sufficiency of nourishing food, with especial reference to the health of the children; (2) housing in low-rent neighborhoods with the minimum number of rooms consistent with health and decency; (3) upkeep of household equipment; (4) clothing of substantial quality but with slight regard for fashion; (5) miscellaneous provisions for such items as carfare, insurance, medical attention, modest contributions to church and fraternal organizations, and limited expenditure for amusement.

The U.S. Bureau of Labor Statistics expressed the same concept of a minimum standard of living also in monetary units. In 1919, it took $1,954 to purchase the same economic goods which could be purchased in 1914 for $1,000. The table on page 181 gives both amounts and percentages spent for particular items.

19. Costs of Living and the General Price Level.—Changes in costs of living constitute a special phase of the "dance of the dollar." The significance of changes in costs of living is eloquently told in the minimum standard of living, the cost of which doubled in the brief period from 1914 to 1919.

A cost-of-living index is a series of percentages representing changes in the prices of essential commodities and services. Commodities are generally limited to necessities and comforts; they are weighted in favor of the former. Such an index is computed from retail rather than wholesale prices. Moreover, costs of living include payments for such essential services as rent, heat, and light; they cannot be computed only from the prices of commodities. Medical and dental bills also should be provided for, although most workers in the lower income groups neglect matters of health until or unless they suffer serious illness or sudden injury, in which event they are hospitalized in free or low-cost wards. Workers pay a considerable share of the public taxes, but they do so, for the most part, indirectly in rent of houses and retail prices of commodities.

Some so-called "overhead costs of living," such as taxes, rent, interest on borrowed money, insurance premiums, and utility rates, vary less than commodity prices. Hence an index of costs of living may not go up so fast or so far during a period of inflation as one of commodity prices. Similarly, during a period of deflation, these service costs of living do not come down so far or so fast as commodity prices. It is also true that retail prices of commodities fluctuate less violently than their wholesale prices.

20. Fluctuations in Costs of Living.—Changes in costs of living naturally follow changes in the general price level. The Civil War brought price inflation, followed, in turn, by several decades of falling prices. Shortly before the turn of the century, the previous trend of the

general price level was reversed; instead of continuing to fall, prices began to rise.

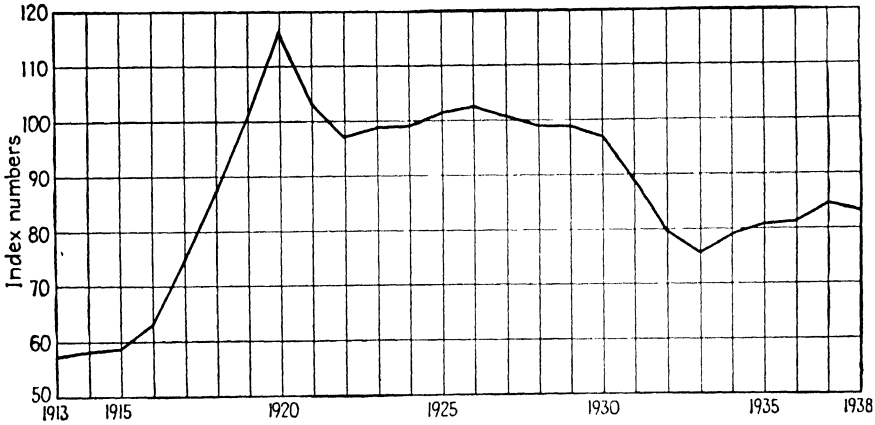


CHART 31.—Estimated annual average indices of costs of goods purchased by wage earners and lower salaried workers (average—1923 to 1925 = 100).

Chart 31 and the following table illustrate later changes in costs of living through an index of the U.S. Bureau of Labor Statistics from the eve of the First World War to the eve of the Second World War. Chart

ESTIMATED ANNUAL AVERAGE INDICES OF COSTS OF GOODS PURCHASED BY WAGE EARNERS AND LOWER SALARIED WORKERS[1]
(Average 1923 to 1925 = 100 per cent)

Year	Index	Year	Index
1913	57.4	1926	102.6
1914	58 2	1927	100.6
1915	58.8	1928	99.5
1916	63.2	1929	99.5
1917	74.4	1930	97.0
1918	87.2	1931	88.6
1919	101.1	1932	79.8
1920	116.2	1933	75.8
1921	103.6	1934	78.6
1922	97.2	1935	80.7
1923	99.0	1936	81.6
1924	99.2	1937	84.3
1925	101.8	1938	83.0

[1] U. S. Bureau of Labor Statistics, *Monthly Labor Review*, January, 1940, p. 140. Based on studies in 32 large cities. All items combined.

32 shows the effect of the outbreak of the Second World War on costs of living in the United States, Canada, and Great Britain.

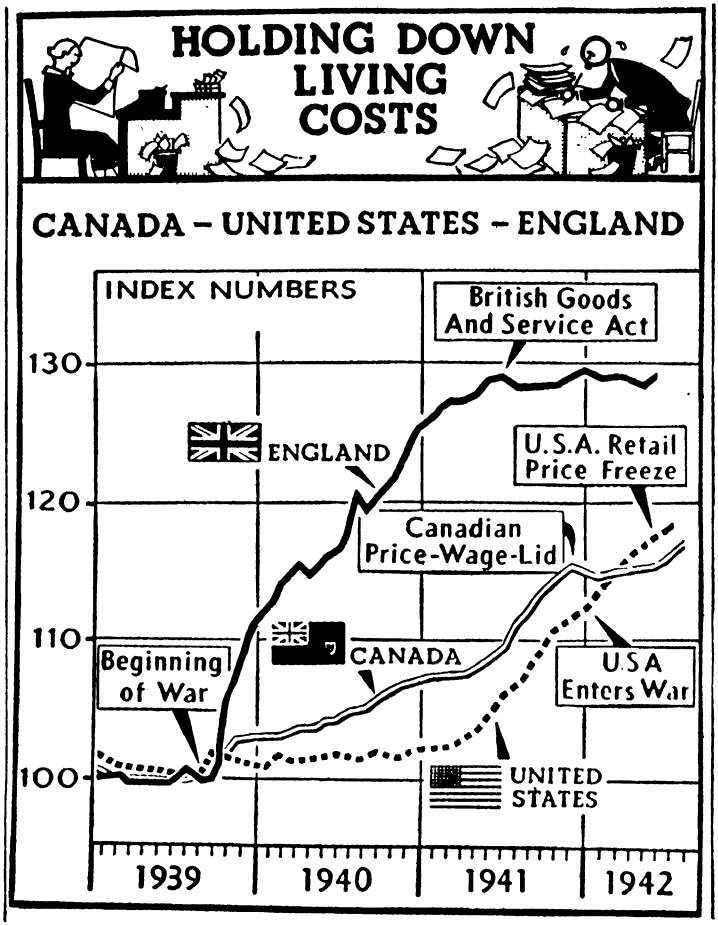


CHART 32.—Associated Press wirephoto. (*Courtesy of Associated Press.*)

The First World War accelerated the rise in the general price level. The peak of inflation was reached in the spring of 1920, when costs of living were more than twice as great as they had been just before the outbreak of the war and almost three times as great as they had been at the opening of the century. There followed a sharp decline in commodity prices between 1920 and 1922. Then ensued a fairly long plateau period of relative stability in commodity prices; the inflation before 1929 was in security prices and not in commodity prices affecting costs of living.

From 1929 to 1933, another serious and even more protracted decline in the general price level brought costs of living down still farther. Nevertheless, postdepression costs of living in 1933 were still above their prewar level of 1913. Recovery measures artificially stimulated prices and temporarily increased costs of living. There was a short business recession from 1937 to 1938, which slightly reduced prices. Finally, the outbreak of the Second World War caused an increase in commodity prices and a rise in costs of living. A sudden scarcity of materials developed, and the menace of inflation was revived.

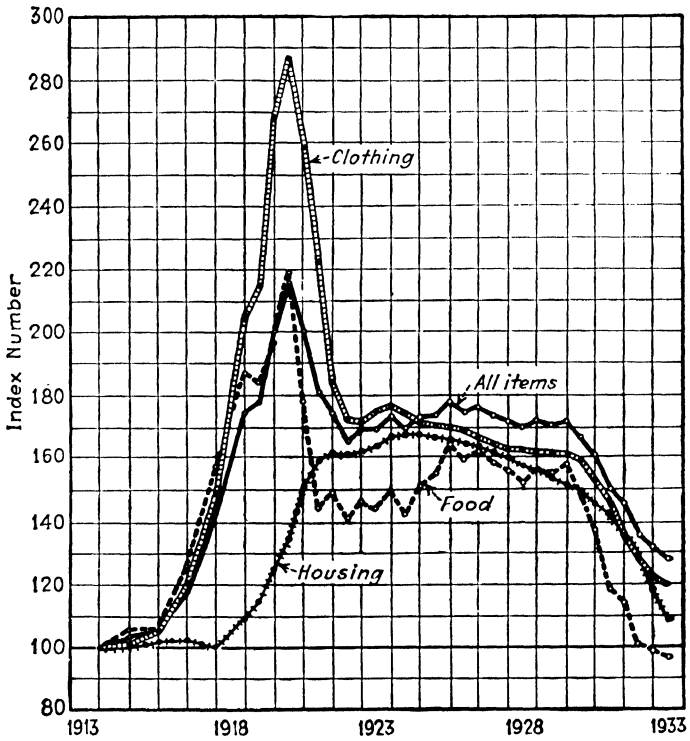


CHART 33.—Relative changes in costs of constituent items in standards of living. (*Prepared from indices of United States Bureau of Labor Statistics. Reproduced from New York Times, Sunday, July* 30, 1933.)

21. Relative Changes in Costs of Particular Items.—The rapidity and intensity of changes in the prices of component items in family budgets are as interesting as changes in the composite whole. Chart 33 pictures relative changes in the costs of three important items, *viz.*, food, shelter, and clothing, in relation to each other and to costs of living in general.

Costs of clothing rose higher and faster than those of either of the other two important items in costs of living during the inflationary period from 1914 to 1920. Food prices rose about as high and as fast as the

general cost of living. This is natural in view of the fact that food constitutes such an important item in the family budgets of those in moderate circumstances. Indeed, a refinement of money wages into real wages by means of a retail food-price index is not so crude as is commonly supposed. The cost of housing, in contrast, did not begin to rise appreciably until several years after the other elements had begun their more prompt upward movement; nor did it rise so high as the other elements in costs of living, particularly clothing.

In the price decline from 1920 to 1921, the costs of food and clothing fell precipitously. On the contrary, the cost of housing continued to advance, but at a much more moderate rate. The postwar housing shortage could not be met so promptly nor so easily as the temporary scarcity of food and clothing.

During the depression years from 1929 to 1933 the costs of food and clothing again fell rapidly. The cost of housing declined more slowly; this decline, however, had begun even before the crash of 1929. Food was the only item in costs of living that went all the way down to its prewar level; its 1933 index was even below that for 1913.

Inflation followed by deflation may be the economic tendencies during and after the Second World War, as they were during and after the First World War. If so, relative changes in the costs of particular items may follow a somewhat similar pattern. The Second World War, however, brought stronger attempts at price fixing and commodity rationing.

22. Inadequacy of Wages.—Numerous attempts have been made to estimate the sum necessary to maintain at a given time a decent standard of living for an American family. These estimates have been paralleled by studies of the wages received by various groups of workers. Although these findings differ from time to time, from place to place, from industry to industry, and from investigator to investigator, nearly all of them reveal the persistent inadequacy of the wages of a large portion of our adult male workers to maintain a family at a decent standard of living. Considerable poverty has existed in prosperous America. Women and children have gone to work to supplement the family income.

The student is not advised to memorize these ephemeral estimates of standards of living, nor the details of the various wage studies which accompany them. Some of the most typical and most important have been quoted[1] from the vast number of such studies made by private and public agencies.

It is only by tracing this problem over many years, through periods of rising prices and of falling prices, and during times of prosperity and of depression, that the inadequacy of a family wage can be discerned for many groups of adult male workers.

[1] A general survey of previous studies of wages and costs of living is given by A. Epstein in his article entitled, "Have American Wages Permitted an American Stand-

23. Early Studies of Wages.—The Reverend John A. Ryan[1] estimated in 1903 that the sum of $600 was the minimum on which a decent standard of living could be maintained by a family. His study of the wages of approximately 4 million adult male workers in manufacture and transportation convinced him that over half of them were receiving inadequate wages to support a family according to his own estimate of the monetary cost at that time of such a minimum standard.

Dr. Scott Nearing[2] concluded, in 1913, that a man, wife, and three children, seeking to maintain a decent standard of living, required $700 a year in Southern states and $750 in Northern states. In larger cities, where rents were higher, $100 a year more were required. His estimate of 1913 is typical of others of the same year. Nearing's study of the wages received by many workers at that time showed their inadequacy. This belief was confirmed by other, later, independent studies. Thus the Pennsylvania Department of Labor and Industry estimated that the average male wage in 1914 was $14.40 a week or $720 a year. The New York Industrial Commission gave the average wage in that state in 1915 as $12.85 a week or $668 a year. The U.S. Commission on Industrial Relations, Report of 1916, estimated that from two-thirds to three-fourths of the male industrial workers over eighteen years of age were receiving less than $15 a week or under $780 a year, and that only one-tenth of them were receiving over $20 a week or more than $1,040 a year.

24. Inadequacy of Wages during the First World War.—Costs of living, which had been slowly rising in the opening years of the twentieth century, rose still more rapidly after the outbreak of the First World War in 1914. With the entrance of America into the war in 1917, prices in this country jumped. Estimates of minimum standards of living became obsolete within a few months.

Professor Ogburn[3] made an analysis of the standard of living of governmental employees in the District of Columbia in 1916. He concluded that an average family of man, wife, and three children was in debt if their annual income was less than $1,155. In 1918 he estimated for the National War Labor Board that $1,386 was essential for a minimum subsistence level and $1,760 for a minimum comfort standard of living.

The National Industrial Conference Board, an organization of employers, reached the conclusion in 1919 that in Massachusetts about $1,386 was necessary for the support of a family of five. A more liberal

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ard of Living?" It was published in the *Annals of the American Academy of Political and Social Science*, September, 1921.

[1] RYAN, J. A., "A Living Wage."

[2] NEARING, S., "Financing the Wage Earner's Family."

[3] OGBURN, W. F., "Movement of the Cost of Living and Wages," *Annals of the American Academy of Political and Social Sciences*, vol. 81, 1919.

budget, which included some provisions for insurance, was fixed at about $1,658. The Amalgamated Clothing Workers at that time insisted that $2,500 was essential for a family income.

A survey of wages during this period of rapidly rising prices is even more bewildering than one of minimum standards of living. It was demonstrated in the last chapter that there is considerable difference of opinion as to the course of real wages during the war. The money wages of different economic groups increased at such varying rates and in such different ratios that any sweeping generalization is misleading, if not inaccurate. It would seem, however, that, in spite of our wartime prosperity, many individuals received insufficient income to maintain former standards of living, and some families suffered actual poverty. Perhaps the strain was greatest on the salaried groups, whose monetary incomes increased but slightly and whose real incomes therefore declined. Considerable retrenchment was necessary in customary standards of living. Similarly, certain groups of unorganized manual laborers received insufficient real income to maintain minimum standards of living.

The idea that all workers received fabulous wages during the First World War is as incorrect as it is common. This economic legend can be traced to the great rise in prices which required unprecedented monetary expressions for the wages of common labor. Perhaps it is due also to the extravagant consumption of those groups of workers who did enjoy temporary prosperity at a time when other groups were suffering relative hardships. The preceding chapter explained that great discrepancies in the course of real wages during this period of inflation developed between wage earners and salaried groups, between industrial and agricultural labor, and between organized and unorganized workers. There were also important differences in wages in "essential" and "non-essential" industries.

The investigation of our national income by the National Bureau of Economic Research,[1] referred to in the three previous chapters, revealed that average incomes in mining and transportation, occupations predominantly those of adult males, were $1,283 and $1,286, respectively, in 1918. Hence they were lower than the minimum required for decency and far below the comfort level. The general findings of the National Bureau of Economic Research as to incomes received in 1918 indicated that the prewar problem of inadequate wages had not been eliminated, no matter what the trend of real wages had been. Thus, there were over 14 million individuals receiving annual incomes of $1,000 or less; over 12 million receiving incomes between $1,000 and $1,500; and over 5 million individuals receiving incomes between $1,500 and $2,000; *i.e.*, a total of about 32 million individuals receiving annual incomes under

[1] National Bureau of Economic Research, "Income in the United States," p. 102.

$2,000. It is safe to assume that most of these small incomes represented wages. Although many of these receivers of small incomes were women and single men, most of them were married men with dependent families.

The U.S. Bureau of Labor Statistics[1] in 1919 made an extensive study of wages in twenty-two fairly typical manufacturing industries throughout the country. The average weekly earnings of male employees therein were found to vary from slightly under $20 to slightly over $30 a week. The yearly average was about $1,330. A similar investigation of miners' wages at the same time by the same body showed interesting variations, but about the same general yearly average. Irregular employment and underemployment in the mines reduced high wage rates to rather meager earnings. Thus the problem of inadequate wages had not been eliminated in 1919 in manufacturing or mining. The incomes of most heads of families were still insufficient of themselves to maintain a comfortable standard of living for a family; many were insufficient to maintain a minimum standard of decent living.

25. Inadequacy of Wages during Postwar Prosperity.—The period between the minor depression of 1921 and the major depression of 1929 to 1933 was one of great prosperity, as well as one of relative stability in commodity prices. Nevertheless, the new industrial revolution was characterized by a rising tide of technological unemployment, even before the deluge of cyclical unemployment during the depression. Although the real wages of employed industrial workers rose between 1922 and 1929, this period was not one of prosperity for agriculture, as shown in the previous chapter.

Even in industry itself, numerous bad spots remained in some basic occupations. Labor in the steel industry had not yet been organized, and the postwar strike for improved conditions failed. The bituminous coal fields of West Virginia were unorganized and the organized areas in Pennsylvania lost heavily during several unsuccessful strikes. In numerous manufacturing industries the open shop made considerable progress at the expense of the closed shop. During the same period, company unionism grew rapidly in membership, while trade unionism enjoyed only a modest increase in membership. Industrial unionism was then unimportant.

The new industrial revolution was accompanied by a relocation of industry, as illustrated by the movement of the cotton-textile manufactures from New England to the Piedmont section of the South, where wages paid were below the general standard of the industry. The figures of the Census of Manufactures for 1923 showed a yearly average of

[1] "Industrial Survey in Selected Industries in the United States in 1919," *Bulletin* 265, pp. 37–38, May, 1920.

$641.97, or a weekly average of $12.35, for the cotton-mill workers of the leading industrial states of the South. The figures of the Bureau of Labor Statistics for 1926 have been paraphrased as follows:

> John South Carolina gets $10.35 a week, while William North Carolina, who represents the best paid of the southern groups, receives $13.66. If we ask how the Carolinas succeed in making both ends meet, we find that they count upon three pay envelopes instead of one. Without the pay envelopes of the older children they could not live.[1]

Even in the North there was a definite movement of the lighter industries from the larger cities into the smaller towns. Very often it was a movement from organized and higher wage communities to unorganized and lower wage areas and from states with advanced labor legislation to those with lower standards of economic well-being for their workers. The result was considerable distress and poverty in both old and new industrial areas.

26. Collapse of Standards during Great Depression.—In the depression from 1929 to 1933, labor lost whatever gains it had made during the new industrial revolution. Employment was curtailed and wage scales were slashed. Consequently earnings fell seriously. Chart 30 in the previous chapter illustrates the decline in per capita money income of wage earners in selected industries from a 1929 high of $1,406 to a 1932 low of $959, or by about one-third. Meanwhile, costs of living declined only from a 1929 index of 99.5 to a 1932 index of 79.8 (average 1923 to 1925 = 100), or by about one-fifth.

Social standards of economic well-being, built up slowly in previous decades, suddenly gave way or slowly crumbled. Many families were forced to reduce their planes of living from a luxury to a comfort level, and others from a comfort level to one of bare necessities. Still other families, many of which had been living previously at a minimum standard, fell into poverty or even into pauperism. Billions of dollars were expended for public relief, and millions of individuals ceased to be self-supporting.

27. Industrial Codes and Recovery Period.—The National Industrial Recovery Act was designed to provide work for the millions of unemployed and to restore purchasing power to the great masses of our population, in order to achieve the following related economic and social objectives: (1) the creation of an effective demand, rather than an impotent desire, for the products of our farms and factories, and (2) the restoration of decent standards of living to many families by giving them work instead of charity.

[1] BLANSHARD, P., "Labor in Southern Cotton Mills," quoted in *American Labor Legislation Review*, March, 1928, p. 48.

In order to remedy former abuses of sweating workers and undercutting wages, the new industrial codes attempted to specify minimum wages for a given group of workers in a specific industry in a particular geographical area. The ideal was that of voluntary agreement in the payment of a living wage and the elimination of establishments which could not, or would not, pay at least a minimum wage. During the summer months of 1933, great industries like steel and cotton, chronic offenders in the matter of hours and wages, worked out their "voluntary" codes under steady pressure from the Federal Government.

President Roosevelt's blanket code, for use by industries until or unless they formulated satisfactory ones for themselves, contained the following provisions concerning wages. It was forbidden to pay any employee covered by the act less than $15 a week in cities of more than 500,000 and in the trade areas about them, or less than $14.50 in cities between 250,000 and 500,000 population, or less than $14 in cities between 2,500 and 250,000 population, or to increase wages by less than 20 per cent of those receiving less than $12 a week or by less than the amount necessary to bring wages up to $12 in towns of less than 2,500 population.

For those employees working on an hourly rather than a weekly basis, the blanket code of 1933 prohibited the payment of less than 40 cents an hour, unless the hourly rate on July 15, 1929, was less than 40 cents an hour, in which case this former rate was to be restored, provided that it was not less than 30 cents an hour, below which rate it was forbidden to go. Employees paid by piecework, rather than by time, could be paid more but not less than these minimum-wage rates.

The blanket code of 1933 further provided that compensation for employment in excess of the minimum wages hereby agreed to should not be reduced, even if hours were reduced by the share-the-work movement reducing the length of the working day or week. In other words, the same earnings were to be maintained for shorter hours by a proportionate increase in wage rates.

The National Industrial Recovery Act was declared unconstitutional by the Supreme Court in 1935.[1] It was superseded in 1938 by the Fair Labor Standards Act, providing minimum wages and maximum hours. This law will be treated in the next chapter.

28. Economic Possibility of Increasing Wages.—A review of estimates of actual wages paid during the past generation in terms of the wage provisions of the industrial codes is informative. It gives an idea of the gigantic proportions of the attempt of the National Industrial Recovery Act to restore purchasing power and standards of living after the ravages of the great economic depression of 1929 to 1933. The wide gap between what had been paid out in the national wage bills of past years and what

[1] *Schechter Poultry Corporation v. United States*, 295 U.S. 495, 1935.

was proposed to be paid out in future wages under the new industrial codes is striking.

The economist contends that increased earnings create increased purchasing power and increased demand for the products of industry, which, in turn, provide funds to pay the increased wages. It is difficult, however, to pay increased wages out of decreased production and in the face of a decline in the general price level. The extensive public-works projects, provided for in the National Industrial Recovery Act, were regarded as a means of priming the stalled motor of private industry. It was hoped that thereby the good cycle of increased production and consumption could be substituted for the vicious circle of decreased production and consumption.

Meanwhile, the employer was puzzled as to how he could absorb or pass on the higher costs of his increased pay roll. Demands for some commodities and services are so elastic that a slight increase in price results in a great decrease in quantity sold. On the other hand, increased wages may act as such an incentive to workers that productivity or output per man-hour may be increased. In such an event, *labor costs*, or wages per unit of output, may be decreased. Low labor costs give employers a competitive advantage, but high labor costs put them at a competitive disadvantage. Higher wages do not necessitate proportionately higher labor costs and proportionately higher commodity prices.

29. Economic Problems of Low Wages.—Industrial inefficiency is a cause of low wages, but it is not the only cause. Again, increased productivity has often been penalized by decreases in wage rates instead of rewarded by increases in earnings. Finally, low wages and low standards are causes, as well as results, of industrial inefficiency.

Low wages not only reduce efficiency but also create discontent. Social unrest finds a fertile soil in the fields of poorly paid and irregularly employed workers. If the present economic order offers no guaranty of a decent standard of living in return for faithful and honest effort, no harm can come by revolutionary changes. Discontented, discouraged, and disappointed workers become ready listeners to the glowing promises of radical leaders. On the other hand, steadily employed and adequately paid workers, who are able to own their small homes and to maintain decent standards of living, form a conservative element within the community.

30. Social Effects of Inadequate Wages.—The social effects of low wages are poverty and subnormal planes of living. These, in turn, create other problems, such as those of women and children in industry. Insanitary housing and insufficient food, clothing, and medical attention are concomitants of low wages which result in an increased death rate.

Infant mortality is a fairly accurate barometer of planes of living. In certain American cities it was found to vary inversely, within certain limits, with the size of the family income. It was twice as great in the lowest income group as in the income group whose earnings were considerably higher. Hence it has been suggested that the low wages of the heads of many families be termed a "dying wage" rather than a "living wage." Chart 34 tells the story.

The inadequate wages of the heads of families cast their shadows over the lives of those children who manage to survive. Thus a large portion of poor children of preschool age and of school age have been found to be undernourished. Many suffer from serious but remedial physical defects. The money which is spent for food and medical care often is

INFANT DEATH RATE PER 1000	FATHERS EARNINGS
168	Under $450
137	$450 to $549
118	$550 to $649
108	$650 to $849
84	$850 to $1049
64	$1050 to $1249
61	$1250 and over

CHART 34.—Infant mortality according to fathers' earnings. Eight American cities. (*Chart drawn from data compiled from Chief of the Children's Bureau, Sixth Annual Report, p.* 11, 1918.)

woefully inadequate. Hence certain cities have maintained the free distribution of milk, soup, or other foods to undernourished school children. Again, the physical examination of school children has been supplemented by free medical and dental services in the case of those unable to pay. Although ignorance and indifference play an important part in ill-health, the significance of inadequate wages cannot be escaped.

31. Criticism of a Family Wage.—The presence of several million women and children in industry, as well as the large number of single men employed, raises the question as to what extent, if at all, the assumption of a family of five, dependent on one wage earner, is correct for the measurement of the adequacy of wages. This may be a splendid social ideal, but it is at variance with the facts.

The average size of the American family is not five, but about four. To be exact, the average has declined steadily from 4.4 in 1920, to 4.1 in 1930, and to 3.8 in 1940. The assumption of two children and not three children per family is borne out by statistics. The 1930 census showed about 36 million children under fifteen years of age out of a total popula-

tion of 123 million persons, whereas the 1940 census revealed only 33 million children under fifteen out of a total population of 132 million; *i.e.*, fewer children in a larger population.

In spite of these statistical refinements, however, the fact remains that there are many individuals who are solely dependent on their own earnings for the support of their families. Moreover, the size of the family is generally greatest in those economic groups which suffer most from low wages. Averages mean little when they result from merging dissimilar groups. On the one hand are many childless families made up of two or more gainfully employed adults. On the other hand are many large families with numerous dependent children.

Summary.—The term "poverty" may be used in a comparative sense to refer to those groups in society with the smallest income. It may also be applied to those whose incomes are too small to permit the maintenance of health and working efficiency. In contrast to the poor, paupers are those individuals who are recipients of charity, either at home or in institutions.

The extent of poverty is difficult to determine, because there are no absolute standards by which deviations from a normal can be measured. The phrase "the submerged tenth" has been used to express the comparative nature and the wide extent of poverty. Still more recently, the expression "a third of the nation" has come into common use with reference to the numerous underprivileged groups in our lower income classes.

The problem of pauperism and the relief of the poor belong within the domain of sociology, but the economist must consider those objective causes of poverty resident in the economic environment. Poverty is now regarded as a social disease instead of a moral virtue. The former attitude toward it was that of almsgiving, but the modern scientific aim is the elimination or reduction of the chief causes of poverty.

Causes of poverty in our economic organization include low wages, unemployment, industrial accidents, occupational diseases, superannuation, and other kindred industrial maladjustments, many of which will be treated in the following section of this book.

Individual or subjective causes of poverty may be illustrated by shiftlessness, sickness, and feeble-mindedness. These factors are concentrated within the social debtor groups; they are also diffused over society as a whole. These individual causes of poverty reflect objective causes in the social environment. They determine the incidence of poverty rather than its existence; *i.e.*, the composition of the poor group.

A standard of living includes those commodities and services to which one is accustomed and which therefore he desires. A plane of living is a

more realistic measure of economic consumption; it includes only those goods which an individual or a family actually consumes. Economic goods may be classified into necessities, comforts, and luxuries. Standards of living and planes of living, like poverty itself, are relative. They vary from age to age, from place to place, and from group to group.

Standards of living are conditioned by one's desires and by one's purchasing power. Family budgets represent an attempt to balance expenditure against income. The commonly accepted unit of measurement is the family. In descending the economic scale from the higher to the lower income groups, the amount spent on necessities decreases, but their relative share of the total expenditure increases. After food, shelter, and clothing have been budgeted, little remains for incidentals, comforts, and savings.

Planes of living have been classified as the pauper-poverty level, the minimum of existence level, the minimum of health and comfort level, and the normal level of health and decency. Various attempts have been made to draw up a minimum standard of living, expressed in terms of certain quantities and qualities of particular commodities and services. Minimum planes of living, however, are generally stated in terms of their monetary costs in a specific place and at a particular time. Fluctuations in the general price level and changes in costs of living necessitate frequent revisions in monetary estimates of a minimum standard of living.

Numerous studies of wages in relation to costs of living testify to the persistent inadequacy of the family wages of a large portion of our laboring population. Although the general trend of real wages before 1929 was upward, the wages of many adult male workers were insufficient of themselves to maintain a family in comfort and even in decency. This conclusion is verified by numerous studies of wages in relation to costs of living in different places and at various times, under rising and falling prices, in periods of prosperity as well as business depressions.

Low wages have serious economic effects. They constitute small purchasing power and slight economic demand. Inadequate wages for the many and large fortunes for the few produce glaring economic contrasts between dire poverty and conspicuous consumption. Although overproduction in a general, unqualified sense is impossible, great economic inequality may result in grave underconsumption and overinvestment, which, in turn, may induce, accelerate, or accentuate the depression phase of the business cycle. Again, low planes of living are the cause as well as the result of industrial inefficiency.

Inadequate wages have equally serious social effects. The insufficiency of the wages of many married men means that they must be supplemented by the meager earnings of other members of their families, many

of whom should be at home or in school instead of industry. Low wages also result in low planes of living, which menace the health, safety, and welfare of the community. An inverse correlation has been established between infant mortality and the wages of the fathers of those families.

Questions for Discussion

1. *a.* Distinguish between poverty and pauperism.
   b. Why are their determination and differentiation difficult?
   c. Indicate the extent of each.
2. *a.* Outline some economic causes of poverty.
   b. Show the significance of each.
3. *a.* What is the distinction between subjective and objective causes of poverty?
   b. Is it valid and vital? Why or why not?
4. *a.* Outline some subjective causes of poverty.
   b. Evaluate the significance of each.
5. *a.* Contrast the old with the new attitude toward poverty.
   b. What does this change of attitude involve?
6. Define plane of living and standard of living. Distinguish one from the other. How are they related to each other?
7. *a.* Why and how are standards and planes of living relative?
   b. To what extent are they social in character?
8. *a.* What are the chief conditioning elements in standards and planes of living?
   b. Show the significance of each element.
9. *a.* What do you understand by a budget and by a family budget?
   b. What should a family budget include?
10. State Engel's law and explain its significance.
11. *a.* Outline various planes of living.
    b. What do you understand by minimum standard of living?
    c. How may it be expressed?
12. *a.* What do you understand by a family wage?
    b. Is it a practical and desirable social concept? Why or why not?
13. What evidence have you that the wages of a large portion of our adult male population have been insufficient to support a family?
14. Is the problem of inadequate wages one of insufficient production, or one of inequitable distribution, or both, or neither? Give reasons.
15. *a.* Give some economic effects of low wages.
    b. Outline some social consequences of inadequate wages.

Topics for Discussion

1. Early studies of poverty by Booth, Rowntree, and Hunter.
2. Aims, methods, and accomplishments of charity organization societies.
3. Philanthropy or social insurance in relation to poverty.
4. Concept of a family wage of Professor Douglas and others.
5. Methods and conclusions of several investigations of planes of living.
6. Prepare a budget of your own income and expenditure or of those of your own family.
7. Collapse of standards of living during the great depression.
8. Attempts to restore planes of living under the National Recovery Administration.

9. Relief programs of the Roosevelt administration.
10. Effects of First and Second World Wars on planes of living.

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PART THREE

HUMAN CONSERVATION AND LABOR LEGISLATION

Chapter IX. Industrial Strain and Fatigue, *Increased Leisure and Improved Working Conditions.*
Chapter X. Women and Children in Industry, *Problems of Exploitation.*
Chapter XI. Industrial Hazards and Social Insurance, *Promotion of Safety.*
Chapter XII. The Problem of Unemployment, *Quest for Security.*

CHAPTER IX

INDUSTRIAL STRAIN AND FATIGUE

INCREASED LEISURE AND IMPROVED WORKING CONDITIONS

1. Industrial Exploitation.—Increased efficiency and improved production have not been followed by commensurate gains in human conservation. Industrial exploitation has dogged the steps of economic progress. Long hours of work, as well as inadequate wages, have been common among large groups of unskilled workers. Moreover, modern economic life has been characterized by new dangers, increased strain, and decreased security, against which protective devices and social insurance have developed slowly. Children have toiled in factories, while adults have walked the streets in search of work. In the absence of intelligent planning of industry, unemployment and underemployment, industrial accidents and occupational diseases have taken heavy human toll. These are social challenges to the alleged efficiency of modern industry. These are social problems of industrial exploitation and human conservation to be discussed in this section of the text.

2. Human Conservation.—Just as poverty is the opposite of prosperity, so exploitation is the antithesis of human conservation. Exploitation involves the sacrifice of producer to product and of people to profits. Human conservation reverses this order and relates social welfare to economic production.

A slave civilization, resting complacently on the foundations of economic exploitation, frankly sacrificed the welfare of the slave to the wealth of his owner by preserving and protecting property rights in human capital. The alternate possibilities of increased longevity of slaves under humane conditions or increased productivity of crops with frequent replacement of slaves were pecuniary problems, the solution of which involved only a comparison of the cost and keep of slaves with the price of cotton or molasses.

Modern civilization, however, professes that all men are free. Capitalism has been defined as a system of economic liberalism and individualism. But legal freedom of contract has not given sufficient protection against industrial exploitation; nor has greater political liberty brought adequate social security.

Human conservation asserts the heresy that men are more valuable than coal or iron, that convalescent mothers mean more to society than

contented cows, that the annual baby crop deserves more care than the annual wheat crop, and that wholesome girls are more to be desired than cheap paper boxes. But specific realities differ from sweeping platitudes, and particular cases present exceptional obstacles to these general rules. Therefore the unscrupulous continue to exploit the helpless. Even the humane employer must find some profit in each worker or else he will not employ him. He must keep labor costs down in order to compete with other enterprisers or he will be forced to retire from business. In this ruthless price competition, standards are lowered and workers are exploited under the freedom of modern capitalism.

The impersonality of industry is as much to blame as the competitive system. The modern employer, perhaps an officer in some great corporation, does not feed and shelter his workers, as did the small plantation owner his slaves, many of whom he knew as individuals. The absentee

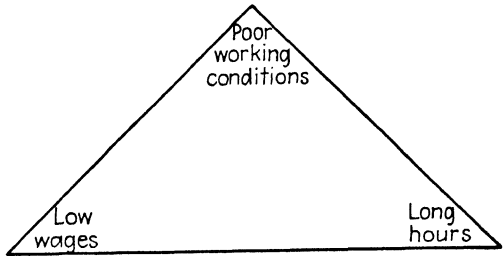


CHART 35.—Triangle of industrial exploitation.

capitalism of today is more analogous to the absentee landlordism of the past, except that modern workers are free to live, or to die, or to move. Under the wage system workers must maintain themselves and their families on their own earnings, many of which have been inadequate to provide even minimum standards of living. The unemployed, the sick, and the superannuated workers have rarely been regarded as the employer's personal responsibility; they have been dropped upon the human scrap heap of industry, where they have languished until or unless provided for by their friends, families, or communities.

3. Chief Forms of Industrial Exploitation.—Low wages, long hours, and poor working conditions have together closed the triangle of industrial exploitation; this combination of maladjustments has constituted a triple threat against human conservation.

The preceding chapter showed the inadequacy of the wages of a large portion of our adult male workers to maintain decent standards of living for their families. The present chapter will complete that picture by showing that conditions of work have often been worst and hours of labor longest among those economic groups which suffer most from low wages. This analysis, like that of preceding chapters, will be limited

chiefly to adult male workers. The special case of women and children will be taken up in the next chapter.

The following discussion will consider first the character of working conditions and then the length of the working day. It will attempt to show that better working conditions and shorter hours are not only desirable but also attainable.

4. Power Machinery and the Working Day.—The invention of power machinery has made possible both an increase in economic goods and a decrease in hours of labor. Modern technology offers not only the prospect of greater prosperity, but also the promise of more leisure. Because of the gains of the industrial revolutions—new as well as old—more wealth than formerly can now be produced in less time.

Power machinery has changed the character of the working day, as well as reduced its length. The physical labor of workers has been eased by mechanization, but mental strain has been intensified. The machine has brought new dangers and additional discomforts. Extreme specialization within industry has led to repetitive operations and to routine procedures, bringing fatigue to body and monotony to mind.

5. New Strain in Industry.—The long working day is very old, but the great strain of modern industry is relatively new. Present methods of production differ sharply from those in use before the introduction of the factory system. Automatic devices have lessened the demand for brute strength and even for painfully acquired knowledge or patiently developed aptitudes. Instead of the brawn and skill required by the hand tool, power machinery demands continuous alertness and dexterous rapidity. Craftsmanship favored the mature worker, but the machine calls for youth.

Speed has increased the physical dangers of industry; mental strain is still further intensified. Again, "improved" processing of commodities often involves disagreeable conditions for workers, who must handle unpleasant things in artificial environments.

Modern industry is characterized not only by a monotonous division of labor and by a rapid rate of speed, but also by numerous other objectionable features, such as great noise, intense heat, a foul atmosphere, and extreme dampness. In many machine shops and textile factories the crash of the machines and the thud of the looms are so loud that it is necessary to shout instructions at the top of one's voice in order to be heard. The heat of blast furnaces, the grease and grime of machine shops, and the odor of fertilizing plants are notorious. Some workers in slaughterhouses must wear boots to protect themselves against the pools of blood in which they are forced to stand continuously.

6. Mechanized Men.—The muscular exertion required of the worker today is probably less than ever before, because of the substitution of

power machinery for human arms and legs. But the nervous strain of industry has been greatly increased. Some of the chief reasons for the fatiguing character of modern production, as just stated, are its intense speed, its dull monotony, and its incessant noise. Constant attention, continuous alertness, and physiological adjustment to an automatic rhythm are as tiring as great muscular effort. The menace of physical danger and the compulsion of the machine can increase this nervous tension to the point of physical exhaustion.

The extensive use of power machinery has been accompanied by an intensive division of labor. Minute specialization of factory work often resolves itself into an endless repetition of the same act, as, for illustration, the operation of a punching machine or a drill press. A worker in an automobile factory, to give another illustration, may merely tighten a particular nut on a certain bolt, as the automatic conveyer carries the parts of the automobile from one worker to another. One laborer in a packing house sticks pigs all day long, and another worker fastens labels on endless cans of lard which are automatically fed to him at a rapid and steady pace.

The adaptation of the human mind and body to the automatic rhythm of the machine involves a nervous and physical adjustment which is fatiguing even under the best of conditions. Although original thought is not required, constant attention and continuous alertness involve a heavy mental strain. This nervous strain and physical fatigue are intensified as the speed increases—often at a disproportionately rapid rate.

Although most workers gradually become accustomed to their working conditions, laborers are, nevertheless, men and women and not automatons, creatures of flesh and blood and not robots of iron and steel. The speed and strain of modern industry, accompanied by its many dangers and disagreeable features, are responsible for the physical fatigue and nervous exhaustion of the workers, which often end in general superannuation or specific occupational diseases.

7. Speeding Up, Stretching Out, and Pace Setting.—Machinery makes it possible to speed up workers to their greatest exertion by forcing the human eyes and fingers to keep pace with those of electricity and steel. In some automobile factories, for illustration, automatic conveyers have been geared deliberately to the rate of speed which corresponds to that of the fastest laborers. Workers, new or old, who could not maintain "the pace that kills" were forced to quit.

Stretching out the duties of workers has been another way of speeding up their movements and of straining their energies. The "stretch-out" was common in the textile industries. The number of spindles tended by spinners or looms by weavers was increased to the utmost capacity of those machine operators.

The plan followed in certain phases of the manufacture of steel was ingenious and typical. Recourse was made to pace setting by the employment of especially fast workers. Each worker was forced to keep up with other workers in his gang. Otherwise, the flow of work would be impeded and the slow worker would be hurried by the conspicuous congestion about him. Moreover, the output and speed of each gang were constantly compared with those of other gangs, in order to discover in which parts of the organization output was falling behind.

Finally, piecework is a device to speed up employees because they are paid by the number of completed and accepted units.

8. Industrial Fatigue and the Accident Rate.—Fatigue is physiological; it results from a toxin in the blood which is produced by continuous physical or mental exertion. Rest and change are imperative, in order to permit nature to do her healing work of recuperation by rebuilding the worn-out cell tissue.

The more strenuous the occupation, the greater the need for a short working day and for sufficient leisure time for the toxin of fatigue to be removed. But the most strenuous and monotonous occupations are those which have been characterized by the longest hours of uninterrupted labor. Unskilled and unorganized workers have been the chief victims of this type of exploitation.

The fatigue point is highest during the last few hours of continuous toil. Hence this period is productive of numerous industrial accidents. As the forenoon progresses and the number of hours of continuous labor increases, the accident rate rises. There is naturally a falling off of industrial accidents during the lunch hour, but the rate rises again in the afternoon hours to even higher levels than those of the forenoon. This situation is illustrated in Chart 36 on the next page.

9. Prevention of Excessive Fatigue.—The long day and the severe strain of industry have combined to produce temporary fatigue and eventual superannuation. Their amelioration or elimination requires both a reduction in the number of hours of continuous employment and an improvement in working conditions. Especially fatiguing work necessitates shorter hours and more rest periods. Very monotonous labor calls for relaxation and variation. Dangerous tasks require special additional precautions.

Progressive employers have taken precautionary measures to guard their workers against extreme fatigue growing out of the strenuous, monotonous, and protracted conditions of their employment. Some have utilized brief recess periods for physical exercise in the case of sedentary workers and for complete relaxation in the case of manual laborers. In most large establishments, however, continuous operation is necessitated by the use of power machinery, by the nature of the

industrial process, and by the interdependent character of business organization.

Where extreme specialization prevails, occasional transfers or changes of occupation afford the workers desirable mental and physical variety.

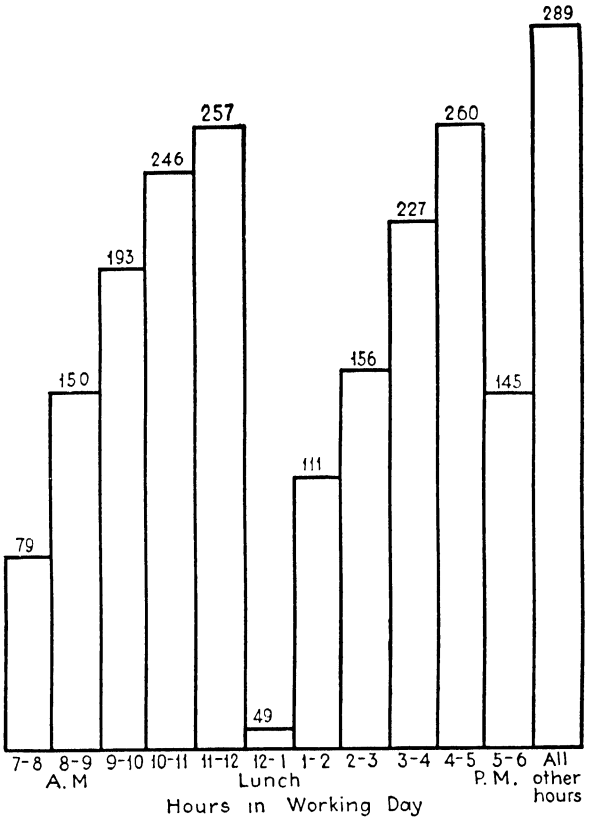


CHART 36.—Relationship between fatigue and accident rate.

See table below.

INDUSTRIAL ACCIDENTS ACCORDING TO HOURS OF THE DAY[1]

7:00 to 7:59 A.M.	79	1:00 to 1:59 P.M.	111
8:00 to 8:59	150	2:00 to 2:59	156
9:00 to 9:59	193	3:00 to 3:59	227
10:00 to 10:59	246	4:00 to 4:59	260
11:00 to 11:59	257	5:00 to 5:59	154
12:00 to 12:59	49	All other hours	289

[1] This table is taken from "The Case for the Shorter Work Day" by Felix Frankfurter and Josephine Goldmark, published by the National Consumers' League.

This variation in employment often reduces fatigue and increases efficiency.

On the other hand, many workers resist change of occupation; they resent personal adjustment to new tasks and different operations.

Some students of industrial conditions contend that many workers are happy in repetitive jobs and are not irritated by the monotony of such work. They seek shorter hours of labor, but not variety of occupation.

10. Increased Comfort of the Worker.—Improved working conditions, like decreased hours of labor, reduce fatigue and strain. Scientific management has made individuals work harder, but it has added to their comfort and convenience. It has sought to reduce unpleasant features of industry, including such sources of discomfort or ill-health as noise, dirt, grease, darkness, dampness, and unpleasant odors.

Progressive employers have utilized experts to study the physical layout of their factories, not only to improve the routine of work and to provide a continuous flow of products, but also to secure adequate ventilation, a healthful, even temperature, and the best possible lighting system. A conscious effort has been made by modern management to save employees' eyes and backs. New mechanical devices, such as automatic conveyers and small motorized trucks, have been utilized to lighten the burden of labor and to speed its production. Other devices, such as blowers and suction tubes, have been introduced to remove unpleasant odors, dangerous dust, and other objectionable features of industry.

Pure drinking water, adequate washrooms, and sanitary toilets should be provided by management for its employees. Locker rooms and shower baths also are essential for those employees who find it necessary to change their street clothing for that worn during hours of manual labor at dirty jobs. Rest rooms are desirable, especially where women are employed.

It was formerly felt that alert employees should always be standing, whether or not this was necessary to their work. Modern department stores, however, have provided seats for their sales forces, which consist largely of women. In slack moments, while awaiting the next customer, tired shopgirls may sit down behind the counters and rest themselves.

Some firms have established recreation rooms within their own plants for the enjoyment of their employees during the noon hour. Other firms have developed indoor and outdoor recreation facilities outside their plants but in the surrounding communities. Lunchrooms which serve meals to their employees, either free or at cost, are provided by some business houses to save the time and to guard the health of their workers. Unless restaurants are not accessible, most employees, however, prefer to go to lunch off the premises.

11. Improved Health of Workers.—It is imperative that first-aid facilities and ordinary medical restoratives be available for common emergency needs resulting from sudden injury or sickness. If the establishment is a large one, a dispensary and a nurse should be provided. If the employment is a dangerous one, more complete hospital facilities

are necessary, especially if the industry is located in a rural community or a small town. If located in a large city not far from a general hospital, the industry should contribute to and cooperate with local health agencies; it need merely provide facilities for the care of minor ailments or emergency needs.

Some business organizations require a physical examination of all applicants for employment and of all employees at periodic intervals thereafter. This is done in order to determine whether or not an individual is capable of enduring the physical and mental strain involved in his job and to discover how well he is withstanding it after employment. Such physical examinations, like mental and educational tests, may be found helpful in an effort to place and to maintain workers in those occupations for which they are best fitted. A few firms have established medical and dental clinics for their employees, on the ground that a general health program is essential to the promotion of industrial efficiency.

12. Human Conservation and Wise Living.—Human conservation involves better and safer living, as well as better and safer working conditions. Private homes, like industrial plants and public buildings, may be unsafe and insanitary. More accidents occur at home and on the streets than in industry. Pleasure cars, like commercial trucks, kill and injure enormous numbers of people. More individuals eat and drink themselves into their graves by their own intemperance and indiscretion than those who starve to death in the absence of human kindness or distributive justice. Although it is impossible to broaden this text on labor problems into a general sociological discussion, it seems pertinent to indicate that human conservation involves good living conditions, as well as good working conditions, and wise use of income and leisure, as well as mere increases in their amounts.

13. Social Inertia and Unequal Division of Leisure.—"Social inertia" is another term for culture lag; it implies maladjustment or failure to utilize full potentialities. Social inertia can be illustrated by the great depression from 1929 to 1933, during which time of dire distress economic wants for food and clothing were not fully gratified, despite the existence of surplus stocks and closed factories. Poverty increased and bread lines lengthened, but the dwindling purchasing power of the masses dried up the deep rivers of effective demand into the shallow streams of impotent desire. There was underconsumption rather than overproduction.

To express social inertia in this part of the text, the negative expression "increased unemployment" instead of the positive one "excessive leisure" has been used. Curiously enough, the term "unemployed" has not been applied to the idle leisure class but has been reserved exclusively for workers out of jobs.

Despite our tremendously increased productivity, many individuals have been working excessive hours. Despite increasing unemployment, there has persisted the employment of children who should have been in school, mothers who should have been at home, and old men who should have been retired on pensions. In short, our national leisure, like our national income, has been unequally divided, resulting in individual injustices, social inequalities, and economic depressions. Well-distributed leisure is as desirable as well-distributed prosperity. Improved distribution of leisure is as important as its increase.

14. Our Social Heritage of Hard Work.—Hard work was an accepted tradition of the past, belonging to a deficit economy of pain in contrast to the present surplus economy of pleasure. The long day of the "ancient lowly" was due to poor methods of production and the absence of power machinery; it was due also to the social institution of status under which the working masses were exploited by the military classes. Long hours of work may have been necessary as recently as a century ago in order to maintain even the crude planes of living then in existence, but they are inexcusable maladjustments today because of the increase of productive power and the rise of democratic ideals.

In the absence of legislation on the subject, the length of the working day for men in this country has varied from time to time, from place to place, and from industry to industry. Differences in the number of working hours in various localities, between agriculture and manufacture, among various industries, and, finally, between organized and unorganized groups are confusing. Nevertheless, a gradual decrease in the working day is perceptible over such a long period of time as the nineteenth century and even during a shorter period such as the first generation of the present century.

15. Reduction in Working Day. *a. Over Nineteenth Century.*—In 1791, journeymen carpenters of Philadelphia adopted a resolution declaring that a day's work should commence at 6 o'clock in the morning and end at 6 o'clock in the evening. If this standard was the ideal working day for organized labor at that time, it can be assumed that actual hours of work for the great masses of unorganized workers a century ago must have exceeded this limit of 12 hours a day.

Before the Civil War, workers in the building trades in our Eastern cities had secured the 10-hour day, but factory workers made slower progress. The 12-hour day was the general rule in the textile mills of New England. Agricultural laborers and domestic servants, then as now, probably worked longer than industrial workers.

The movement toward a shorter working day progressed rapidly during the industrialization of the United States after the Civil War. It was stimulated by the growth of labor organizations. Mechanical

industries, such as manufacture and transportation, advanced from the 12-hour day to the 10-hour day. Workers in the building trades proposed the then revolutionary ideal of an 8-hour day and made definite progress toward it.

b. In the Twentieth Century.—The first generation of the twentieth century witnessed a further reduction in the length of the working day. Additional progress toward the 8-hour day was made in skilled trades and toward the 9- and 10-hour day in unskilled occupations. Thus the

HOURS OF WORK IN MECHANICAL AND MANUFACTURING ESTABLISHMENTS

Year	Average working day, hours	Year	Average working day, hours
1840	11.4	1890	10 0
1850	11.5	1900	9 8
1860	11 0	1910	9 25
1870	10 5	1920	9.0
1880	10 3		

These averages for the decades of the nineteenth century are from "Labor Problems" by Adams and Sumner, p. 518, and those for the present century are from the U.S. Bureau of Labor Statistics for similar industries.

Census for Manufactures for 1919 showed that, of the 9 million workers employed in manufactures, almost half were employed in establishments where hours of labor were 48 hours per week, *i.e.*, where the 8-hour day prevailed. This ratio for 1919 compared favorably with the 12 per cent ratio shown in 1914 and the 8 per cent ratio of 1909. This Census for Manufactures in 1919 showed also that, in the establishments surveyed, only 35 per cent of their employees were working 54 hours or more per week, *i.e.*, for 9 hours or more a day, and only 12 per cent for 60 or more hours a week, *i.e.*, for 10 hours or more per day.

The above table summarizes the gradual reduction in the length of the working day in mechanical and manufacturing establishments from 1840 to 1920.

16. Reduction in Working Week.—Estimates of hours of labor on a weekly instead of a daily basis show a similar decrease.

During the last fifty years, although no perfect measure of the trend is available, it is probable that the normal work week in American industry has decreased by 20 hours. Between 1890 and 1926, the standard hours of work in manufacturing industries have fallen from 60 to 50 a week; and from 1902 to 1926 the work week of bituminous and anthracite coal miners has been reduced by 6 hours, from 54.5 to 48.3 hours a week.[1]

The movement toward a shorter working week, at least in manufacturing industries, went forward steadily in the first two decades of the present century. A survey by the National Industrial Conference

[1] "Recent Social Trends," vol. 2, pp. 828, 829.

Board, shown in the table accompanying Chart 37*A*, revealed a steady decline from almost 60 hours a week in 1899 to slightly over 50 hours a week in 1921. The movement toward a shorter working week was

AVERAGE HOURS OF WORK IN MANUFACTURING INDUSTRIES, 1899 TO 1929[1]

Year	Hours of work per week	Year	Hours of work per week
1899	59.6	1919	50.8
1904	57.9	1921	50.3
1909	56.8	1923	50 4
1914	55.1	1929	50.6

[1] *Conference Board Bulletin*, Feb. 20, 1933, p. 14. U S census figures from 1899 to 1921, and those of National Industrial Conference Board for 1923 and 1929.

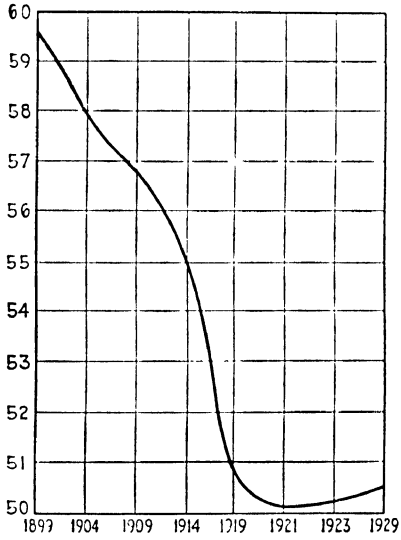


CHART 37*A*.—Long-run trend of weekly hours of work in manufactures (1899 to 1929). (*U.S. Census and National Industrial Conference Board.*)

See table above.

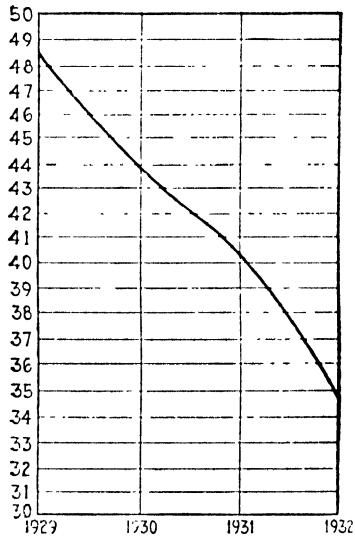


CHART 37*B*.—Short-run trend of weekly hours of work in manufactures (1929 to 1932). (*National Industrial Conference Board.*)

See table below.

AVERAGE HOURS OF WORK IN MANUFACTURING INDUSTRIES, 1929 TO 1932[1]

Year	Hours of work per week	Year	Hours of work per week
1929	48.4	1931	40 4
1930	43.9	1932	34 9

[1] National Industrial Conference Board's study of a select group of establishments. Although these results are believed to be typical of manufacturing industries in general, they were not arrived at by a general analysis of all manufactures, as in the former study *Conference Board Bulletin*, Feb. 20, 1933, p. 15.

accelerated in the period of the First World War, for the reductions in weekly hours of work from 1914 to 1919 were between two and three times as great as those achieved in any of the preceding 5-year periods.

Moreover, the reductions in average hours then achieved were retained fairly well in the years immediately following the war. In the decade from 1919 to 1929, the average of weekly hours of work in manufactures remained fairly stable at between 50 and 51 hours, *i.e.*, midway between the 8- and 9-hour day.

The reduction in average weekly hours of work in the four years following 1929 shows the ravages of economic depression, instead of the gains of social progress. It is illustrated in Chart 37*B*.

17. Analysis of Average Working Day or Week.—The findings of any research organization as to the length of the working day or week, no matter how careful and unbiased its study may be, must be discounted for the reason that it usually enjoys the cooperation of only the best business concerns. Those industries in which conditions are worse than the hypothetical normal or mathematical average are not disposed to give publicity to their inadequate wages, long hours of labor, or miserable working conditions. The formulation of industrial codes in 1933 revealed distressingly low standards amid great variations in all these matters, especially among industries and firms that may be termed "socially subnormal" or "economically submarginal."

It has been observed before that any statistical average is a purely mathematical concept, be it that of an average-sized family or an average wage. The average working day or week, just discussed, was built up of several dissimilar elements. Even though limited to manufactures, the average number of hours of work in any given year varied greatly from men to women, from skilled to unskilled workers, and from organized to unorganized labor. Hence the National Industrial Conference Board's weekly average between 50 and 51 hours, stable though it was from 1919 to 1929, is rather meaningless. This general average has much more significance when broken down into a 54-hour week or a 9-hour day for most unorganized and unskilled workers and a 48-hour week or an 8-hour day for most organized and skilled labor, achieved by collective bargaining, and for most women workers, achieved by legislation.

18. Gains and Variations in Different Industries.—The table on page 213 shows the average weekly hours of work in eleven different industries in 1890 and 1928. It indicates not only relative gains in each industry, but also differences among various industries at the same time.

The relatively short hours enjoyed by skilled and organized workers are well illustrated by the printing trades and construction industries. In 1890, they were midway between the 8- and 9-hour day, but by 1928 they had secured the 8-hour day with the 5½-day week. Textile industries occupied a central position in both 1890 and 1928. The steel industry was in last place in both years. Although achieving the

greatest progress of all industries by reducing its working hours by almost 30 per cent, the steel industry achieved this gain from a 12-hour day in a 7-day week in 1890 to a 10-hour day in a 6-day week in 1928.

AVERAGE HOURS OF LABOR PER WEEK IN ELEVEN INDUSTRIES[1]
(1890 and 1928 compared)

Industry	Average hours per week		Percentage decrease during period
	1890	1928	
Bakeries	64.7	47.4	26.7
Boot and shoe	59.5	49.1	17.5
Building	52.0	43.5	16.3
Cotton goods	62.8	53.4	14.9
Foundry and machine shops	59.8	50.4	15.7
Blast furnaces	84.6	59.8	29.3
Marble and stone	54.7	44.0	19.6
Mill work	52.0	44.8	13.8
Book and job printing	56.4	44.3	21.5
Newspaper printing	48.2	45.1	6.5
Woolen goods	58.9	49.3	16.3

[1] TEPER, L., "Hours of Labor," Johns Hopkins Studies in History and Political Science, Series L, No. 1, quoted in "Recent Social Trends," vol. 2, p. 829.

19. Hours of Labor in Continuous Industries.—A glaring illustration of excessive hours of work was the steel industry, where the 12-hour shift and the 7-day week were formerly in existence. The previous table indicates that the average weekly hours of workers in blast furnaces were 84.6 hours in 1890, which is slightly in excess of 12 hours a day for 7 days in the week. Obviously many laborers worked for longer and some for shorter hours than this high average.

Blast furnaces require continuous operation; and they were generally worked by two 12-hour shifts instead of three 8-hour shifts or four 6-hour shifts. In making the change from the day to the night shift, and the reverse, half the workers were required to remain continuously on duty for the full 24 hours, while the other half had a 24-hour holiday, every other week.

Public sentiment finally became so strong that various steel companies agreed to reduce their working day and week. In 1923, the United States Steel Corporation publicly announced that the process of eliminating the 12-hour day, the 7-day week, and the 24-hour continuous shift in the steel industry had begun. Although improvement was not so rapid as conditions demanded, by 1928, as shown in the previous section, average weekly hours in blast furnaces were slightly below 60 hours. In other words, the iron and steel industry was on the

basis of a 10-hour day and a 6-day week. The 24-hour continuous shift had passed into history, but it was not forgotten or forgiven by labor leaders.

A study of labor conditions in Southern mills during the prosperous period before the crash of 1929 indicated that textile factories in that newly industrialized area were threatening to take the unenviable place formerly held by the steel industry in the matter of long hours.

Other continuous industries were sugar refineries, chemical factories, ice plants, coke ovens, paper and pulp mills, and public utilities. Similarly notorious offenders in the matters of excessive hours at unpleasant tasks and undesirable hours of night work have been the service industries, illustrated by elevator operators, delivery men, and refuse collectors. The chief reasons for their continuous operation have been either the technical nature of the industry or the public necessity of continuous operation.

A continuous industry can be operated by two shifts of 12 hours each, by three shifts of 8 hours each, or even by four shifts of 6 hours each. Social welfare demands the transition from long hours of work to shorter hours, particularly in difficult or dangerous occupations and at monotonous or unpleasant tasks. A preceding section has shown how a shorter working week came into existence during the depression years by reducing employment and sharing work. Subsequent sections will show how it was achieved by legislation, especially that of the Roosevelt administration.

20. Legislation for Shorter Hours.—Soon after the Civil War, several states attempted legislation toward a shorter working day for men, just as in previous decades similar laws had been passed for the protection of women and children in industry. Most of this early legislation, however, was not enforced or not enforceable. Although the movement continued, laws for the reduction of the working day for men were successful only in public employments, quasi-public employments, and dangerous industries.

The constitutionality of laws restricting working hours of public employees was affirmed by a Supreme Court Decision of 1903[1] which upheld the Kansas 8-hour day for state and municipal employees. A Federal act of 1912 inserted an 8-hour clause in contracts for governmental work and hence extended the 8-hour day beyond public employees. The Adamson Act of 1916, which provided a basic 8-hour day for railroad employees, was sustained by the Supreme Court.[2]

In private employments the general rule before 1933 was that the regulation of hours of work by the government was constitutional only

[1] *Adkins, v. Kansas*, 191 U.S. 207, 1903.

[2] *Wilson v. New*, 243 U.S. 332, 1917.

when the public welfare was seriously threatened. The burden of proof rested on those in favor of a restriction of hours of work. The courts were very jealous of personal and property rights, including freedom of contract, guaranteed by the Constitution.

Excessive hours of work in railroading and mining, however, were held to be so detrimental to safety that legislative restriction of hours of work in these industries was justified even for adult male workers, who constituted most of the employees. Thus the U.S. Supreme Court upheld the constitutionality of a Utah statute which limited hours of labor in smelters and underground mines to 8 hours a day.[1] Most important mining states soon passed similar 8-hour laws for these and comparable industries.

On the other hand, attempts to legislate concerning hours of work in ordinary private industries were not viewed as constitutional. Thus the New York 10-hour law for bakers was held to be an unconstitutional violation of freedom of contract and an undue extension of the police power of the state.[2] With the passage of time, however, a more liberal attitude was gradually developed. For example, the Oregon 10-hour law for every "mill, factory, or manufacturing establishment" was sustained in 1917.[3]

21. Progress toward Eight-hour Day.—The movement for a universal 8-hour day, imposed by legislation, may be said to have originated in Australia and New Zealand about the turn of the century. The wage boards of most Australian states were empowered to fix the maximum number of working hours per week; their general standard was that of an 8-hour day or a 44-hour week.

Great Britain and many other European countries also have legislated as to the length of the working day in most industries. The 8-hour day was fairly well established at or after the First World War. It became one of the early ideals of the International Labour Office in Geneva, which has sought to raise and to standardize general conditions of employment throughout the entire world, realizing that higher labor standards in any country are menaced by lower standards in other nations.

Within the United States, progress toward the 8-hour day was made chiefly by collective bargaining. It has been shown that working hours in organized trades were decidedly lower than those in unorganized industries. The 8-hour day and the 44-hour week were zealously guarded by the American Federation of Labor and other trade unions.

Progress toward a universal 8-hour day in this country was impeded by the absence of such general legislation in most states and by unfavor-

[1] *Holden v. Hardy*, 169 U.S. 366, 1898.
[2] *Lochner v. New York*, 198 U.S. 45, 1905.
[3] *Bunting v. Oregon*, 243 U.S. 426, 1917.

able court decisions in those states which did attempt to reduce hours of labor by legislative enactments. As just indicated, American states, at least prior to 1933, had been willing, or permitted by the courts, to limit hours of employment only in the case of public employees, women and children, and workers in dangerous or extremely fatiguing occupations.

Nevertheless, public sentiment in favor of the 8-hour day increased steadily in the first generation of the present century. The 24-hour day was divided into three parts, each one of which was provided for in the following bit of doggerel verse.

> Eight hours for work, eight hours for play,
> Eight hours for sleep, make up the full day.

22. Interpretation of the Eight-hour Day.—It would seem that the 8-hour day has three distinct meanings: (1) a straight 8-hour day, under which overtime is eliminated except for emergencies; (2) an 8-hour shift with three distinct groups of workers employed in continuous industries; and (3) a basic 8-hour day, in which overtime is permitted and in which the 8-hour day is merely the basis for measuring wages.

Alleged attempts to shorten the working day have frequently been mere devices to secure increased wages. Thus we must distinguish between the 8-hour day and the basis 8-hour day. The latter provision does not prevent an employee from working more than 8 hours; it provides merely that hours of work in excess of 8 hours shall be construed as overtime, to be paid for at higher rates of pay. The Adamson Act for railroad workers was of this character. It provided that "8 hours shall, in contracts for labor and service, be deemed a day's work and the measure or standard of a day's work for the purpose of reckoning the compensation for services of all employees."

It is apparent, however, that provisions which classify excessive hours of work as overtime tend to eliminate them. Overtime is paid for at a higher rate than is ordinary labor, sometimes at a 50 per cent increase. Hence the employer will not use overtime employment except for emergency needs. In this way, provisions which classify excessive hours of work as overtime, and which make overtime expensive, tend to reduce the length of the actual working day. The basic 8-hour day tended to standardize, as well as to raise, the general level of employment.

Some employers have professed adherence to an 8-hour day but have so staggered their hours of employment that the intervals of rest between them could not well be utilized by their employees. For example, waitresses might be required to be on duty for breakfast from 7 to 10 o'clock, for luncheon from 12 to 3 o'clock and for dinner from 6 to 8 o'clock. Even during some of their "off hours" these waitresses might

be expected to help in setting the tables or to take turns at serving early or late patrons. In reality, such an arrangement was a 13-hour day with two intervals for resting. In defense of such a situation it was argued that waitresses were not employed continuously, even while they were on duty.

23. Five-day Week and Six-hour Day.—A shorter working week, as well as a shorter working day, was made possible by the increased productivity of the new industrial revolution. Even before the crash in 1929, much progress had been made toward the 5½-day week in skilled trades and clerical occupations. Saturday had become a half holiday for many workers throughout the year. Other workers, employed Saturday afternoons in the winter months, had that entire day off in the summer months, owing to the growing custom of Saturday closing in warm weather.

Several years before the great depression, Henry Ford publicly announced his advocacy of a week-end holiday of Saturday and Sunday, which would permit city dwellers the opportunity of getting back to nature. Some heads of great mercantile establishments agreed that a 5-day week was desirable for their employees but wished to keep their stores open evenings. They were as desirous that the buying public be given more convenient shopping hours as was Mr. Ford that a civilization on wheels be permitted a longer interval for motor trips. Some enlightened employers were willing to go along on a 5-day week without Saturday closing by the device of staggering the extra weekly holiday over 6 and not 5 days. Different groups of employees could be given different days off to remain at home, to motor in the country, or to do their own shopping.

The growing problem of unemployment stimulated similar interest in further reductions in the working day. Labor leaders, men in public life, and progressive employers began talking in terms of a future working day of 6 hours, in contrast to the former ideal of an 8-hour day and the reality of even longer hours of work.

The economic depression from 1929 to 1933 brought to a head the previous desire for a shorter working day and week. In 1932, Frank Morrison, secretary of the American Federation of Labor, stated that "there is no possibility of putting men back to work unless a shorter work day and week is established." A specific recommendation for a 5-day week and 6-hour day was offered to the 1932 Convention of the American Federation of Labor. Bills were introduced into Congress providing for a 30-hour week. Such drastic legislation, however, was not passed. As we shall soon see, a 40-hour week finally emerged.

The great depression resulted in a drastic reduction of the working week, as shown in Chart 37*B*, page 211. Employers sought to distribute

as widely as possible the smaller amount of employment by giving each worker only 2 or 3 days of work a week, rather than a full week for some employees and complete unemployment for others. Employment was irregular and inadequate. Holidays were imposed, rather than granted; they were uncertain, rather than routine matters. In essence, they were payless days of unemployment, rather than regularly scheduled weekly holidays with compensation.

24. Working Hours under the National Industrial Recovery Act.—The National Industrial Recovery Act of 1933, as explained in the preceding chapter, sought to increase employment and to raise wages. It also aimed to restrict hours of work. Industrial codes, formulated or imposed, went far beyond the limits of the "share-the-work" slogan of the depression. President Roosevelt's blanket code for industries which had not formulated acceptable codes contained the following restrictions as to hours of work.

It was forbidden to employ factory or mechanical workers for more than 40 hours in any one week, and to reduce operations below 52 hours in any week, unless such hours were less than 52 hours before July 1, 1933, and in such case not to reduce hours at all. In other words, more employees, each working fewer hours, should maintain the same total number of store or office hours.

The drastic character of these emergency regulations concerning hours of work is evident. Their application was not limited to public employees, to women and children, or to men in dangerous occupations. They applied not to an individual state, but to the entire United States, on the theory that most industrial products found their way into interstate commerce. Interstate commerce powers of the Federal Government were utilized to regulate intrastate industry.

The administrative burden of the new legislation was as heavy as the change in legal philosophy was revolutionary. From the very start, administrative interpretations of all sorts were necessary; many exceptions or modifications were made to meet individual problems. But executive orders were promptly issued against evasions by early closing of establishments and against subterfuges, such as scheduled rest periods which were not expected to be consumed regularly or entirely or 2-hour luncheon intervals with the expectation that employees would stagger this time by remaining late or returning early.

Supported by strong public opinion, the Federal Administration attempted to distinguish between firms complying and those not complying with these provisions of the industrial codes concerning hours of work. The former group were rewarded with the "Blue Eagle" insignia, which was displayed conspicuously to invite patriotic patronage. Stamped on goods, it was as effective as the union label in proclaiming production

under acceptable labor conditions. Such a device, however, was temporary rather than permanent and more effective with consumption goods in retail stores than with capital goods in wholesale or manufacturing establishments.

25. Hours under Fair Labor Standards Act.—The National Industrial Recovery Act, as previously stated, was declared unconstitutional by the Supreme Court in 1935. This decision invalidated the industrial codes drawn up under the Recovery Administration. Other legislation, therefore, was subsequently framed to secure many of these same objectives.

The Fair Labor Standards Act, also known as the Minimum Wage and Maximum Hour Law, was passed in 1938. It likewise relied on the interstate commerce powers of the Federal Government, but it was fairly specific in its provisions, thus seeking to avoid unconstitutional delegation of legislative power to an administrative agency.

The Fair Labor Standards Act had three purposes: (1) To place a floor under wages; (2) to put a ceiling over hours; and (3) to prohibit child labor. Minimum wages and child labor will be discussed in the following chapter. It will be sufficient at this point to observe merely that a minimum hourly wage of 25 cents was prescribed for the first year, one of 30 cents an hour after October, 1939, and one of 40 cents an hour after 1945.

Maximum hours after October, 1938 were prescribed at 44; after October, 1939, at 42; and after October, 1940, at 40 hours. These hours were regarded as basic and not as rigidly fixed. More than the maximum number of hours per week might be worked, provided that a wage rate of time and a half was paid for the excess. Even more lenient and elastic provisions were made for such highly seasonal industries as canning and processing agricultural products. For example, an industry declared to be "seasonal," which therefore could not operate off season without losing such classification, might extend its maximum work day to 12 hours and its maximum work week to 56 hours with time and a half payment only for hours beyond these extended limits, which, however could apply for not more than 14 weeks in the year. Agriculture was excluded from the provisions of this law. The administration of the act was placed under a specially created agency termed the Federal Wage and Hour Administration.

26. Modern Expansion of Leisure.—The rapid increase in industrial productivity has been stressed. In the middle 1930's increased productivity expressed itself in lower prices to all consumers and in higher planes of living to most families. This result was featured in the Brookings study, "Productivity, Wages and National Income." Increased productivity also expressed itself in higher wages and shorter hours. It will be remembered that this Brookings study revealed that, although wage rates

increased, hours of work so decreased that little change took place in the money earnings of workers, whose income advanced chiefly because of the increased purchasing power of the consumer's dollar.

According to the Brookings study, the number of wage earners in manufacture increased from 1923–1924 to 1928–1929 by only 2.8 per cent and from 1928–1929 to 1936–1937 by a negligible 0.8 per cent. The number of man-hours of employment in manufacture increased during the prosperity years from 1923–1924 to 1928–1929 by only 1.8 per cent (less even than the increase in number of wage earners) and actually decreased during the years of depression and reconstruction from 1928–1929 to 1936–1937 by 18 per cent. For the entire period, 1923–1924 to 1936–1937, there was a large decrease of 16 per cent in man-hours of employment accompanying a slight increase in the number of wage earners of 3.5 per cent. Within these years, therefore, workers were benefiting more by increased leisure than by increased income.

27. National Defense Program.—The outbreak of the Second World War and the subsequent involvement of the United States suddenly changed this situation. The former preoccupation with domestic affairs gave way to growing concern about international matters. Public construction (made work) for relief, recovery, and reform was replaced by industrial conversion for national defense. The problem of unemployment was ameliorated and the prospect of leisure was obliterated by an "all-out" effort to increase the volume and to change the character of production. Industrial plants were converted from the manufacture of peacetime products to the manufacture of articles of war. Firms which had previously been unable to secure sufficient orders to keep their plants in operation were suddenly unable to keep commitments and to make deliveries. Factories which had been working part time were kept in continuous operation.

The relative scarcity of skilled labor was keenly felt. Consequently, many workers were employed overtime. The existence of the Federal Wage and Hour Law and of similar state statutes, buttressed by the strength of organized labor, resulted in a great increase in the earnings of labor through payment of time and a half for overtime and of double rates for Sunday work. In some occupations wage rates were increased as costs of living rose.

In order to achieve increased production for the successful prosecution of the war and to prevent the spiral of rising wages and rising prices, an effort was made to suspend for the duration of the war the operation of the Federal 40-hour-week law. Such a proposal was introduced into Congress early in 1942 but it failed of administrative support and legislative majority. Efforts were made by the Federal Government to prevent inflation by control of prices of industrial products. Labor leaders

opposed attempts to curb wage rates, and farmers resisted efforts to limit food costs. In industry, double time for Sundays and holidays was almost eliminated; the provision for time and a half for work beyond 40 hours a week was generally retained.

28. Economic Aspects of Shorter Hours.—There is much diversity of opinion among advocates and opponents of a shorter working day or week as to its economic possibility and desirability. Employees welcome it, provided wage rates are so increased that total earnings are not reduced or at least do not decline proportionately with hours of work. Employers oppose shorter hours when it means increased wage rates or the same earnings for fewer hours. Even when merely a sharing of work is suggested by using more employees for fewer hours each at the same wage rate, some employers have objected to shorter hours and more frequent shifts, because it forces the employment of inferior workers at the same time that it cuts the time and earnings of superior workers.

Many workers desire a reduction in the working day, not only to secure increased leisure and higher wage rates, but also to guard against unemployment. Some labor leaders fear that excessive hours of work will lessen the so called "lump of labor" and force workers in a particular industry, or their fellows, out of their jobs. On the other hand, if the day's work be reduced from 12 to 8 hours, such a reduction of the working day, it is incorrectly alleged, will create employment for 50 per cent more workers in the industry.

Such reasoning is fallacious; it is based on erroneous assumptions. The lump of labor is merely a local and a short-run situation. In the long run, there is no fixed demand for labor, even of a given type. In its final analysis, the demand for labor is conditioned by the productivity of labor. If the increased productivity of industry is accompanied by a simultaneous increase in earnings, labor receives an additional purchasing power, which constitutes an additional demand for its own products and thus creates more employment. On the other hand, a sharp decrease in hours of work, like a sudden increase of wages, without commensurate increase in productivity, may raise prices to consumers, thus reducing potential sales and employment. Neither a shorter working day nor a rigid limitation of output will protect workers, in the long run, against unemployment. The greatly increased productivity of industry, however, seems to have been widely, although not evenly, distributed, both in gains to consumers through lower prices and in gains to workers through increased wages, particularly in the twenties, and through increased leisure, especially in the thirties.

29. Hours of Work and Productivity of Labor.—A favorable aspect of this problem lies in the fact that a reduction in hours of work is not necessarily accompanied by a proportionate decrease in production.

Increased efficiency and decreased fatigue of the workers may more than offset a modest reduction of the working day. Conversely, long hours of work result in a diminishing rate of productivity. The relationship between increasing fatigue and decreasing productivity is illustrated in Chart 38 and its accompanying table.

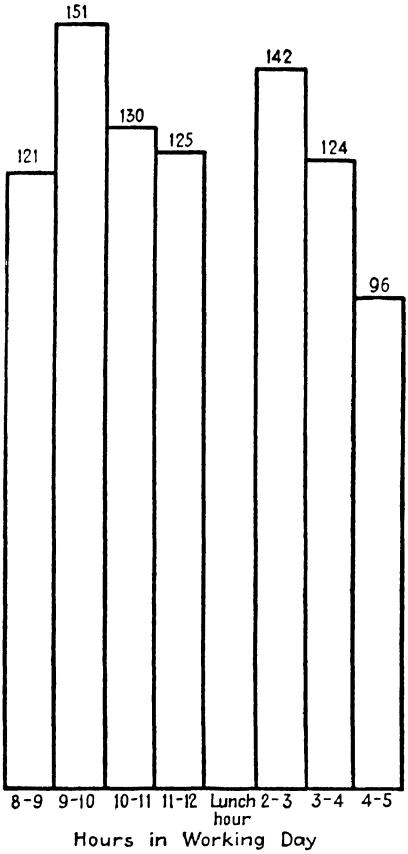


CHART 38.—Relationship between fatigue and productivity. (*Prepared from indices given by J. B. Andrews in "Labor Problems and Labor Legislation,"* 1932.)

See table below.

The hourly output of six experienced typesetters was recorded in a controlled experiment to determine the effects of fatigue on productivity. The point of maximum productivity was reached during the second hour, after which it declined slowly until lunchtime. After 2 hours of rest, productivity rose again to a point higher than the first morning hour but lower than the second morning hour. Productivity per hour declined steadily in the afternoon and the greatest decline was experienced in the last hour worked. The working day in this study was one of only 7 hours, broken by 2 hours for lunch. A longer and more continuous day of arduous toil would probably show a more rapidly declining rate of productivity to a much lower degree of productivity during the last hour or two worked.

30. Economic Incentive of a Shorter Working Day.—Opponents of shorter hours often predicted dire results from this expedient, such as a great increase in labor costs and a serious decrease in productive capacity.

PRODUCTIVITY AND FATIGUE[1]

Hour	Product	Percentage decrease or increase over previous hours	Hour	Product	Percentage decrease or increase over previous hour
8 to 9	121		2 to 3	142	+14
9 to 10	151	+25	3 to 4	124	−13
10 to 11	130	−14	4 to 5	96	−23
11 to 12	125	− 4			

[1] ANDREWS, J. B., "Labor Problems and Labor Legislation," p. 38, 1932.

Ultraconservatives even went so far as to prophesy that the shorter working day would cause so great an increase in the price of the product that a loss of both the foreign and the domestic markets would result. Nevertheless, it has been repeatedly shown that a reasonable curtailment of hours of labor has not resulted in a serious increase in labor costs. In some cases, the shorter working day has been so great an economic stimulus that no loss at all in production was caused by a slight decrease of hours.

The British Health of Munitions Workers Committee, for illustration, found that a reduction of from 7 to 20 hours per week in no case resulted in more than an insignificant reduction in the total output, while on the average it produced a substantial increase in production. The Illinois Industrial Survey of the Hours and Health of Women Workers discovered that the reduction of the weekly hours of work from 55 and 54 to 48 hours resulted, not in a decrease in production, but in an actual increase of output.

31. Social Advantages of a Shorter Working Day.—Human conservation has its quantitative side in a reduction of working hours and its qualitative side in an improvement of working conditions. The social advantages of the shorter working day may be summed up under the general headings of health, safety, education, and morality.

The relation between long hours of work and health was discussed in a previous section. The physiological character of fatigue was demonstrated. Long hours of work are productive of fatigue toxin, which lessens organic resistance to both general and occupational diseases. The modern attitude toward disease is not only that of reducing exposure to it, but also that of building up resistance against it. Industrial fatigue is a devitalizer which menaces both health and longevity.

The role of excessive hours of work in the matter of industrial accidents also has been indicated. Chart 35 showed that the number of industrial accidents per hour mounts as the number of hours of continuous employment increases. Hence safety, as well as health, requires a reduction of excessive hours of labor and an improvement of working conditions.

The problem of industrial fatigue has its moral and educational aspects, as well as those of health and safety. Physical or mental exhaustion is unfavorable to the exercise of self-control; it is unresponsive to the finer forms of self-expression. Excessive hours of work minimize the amount of leisure time, so that little opportunity is given for either formal education in night schools or informal education in other cultural institutions. The tired worker has little inclination for public libraries, museums, and art galleries. He readily yields to coarse pleasures or cheap thrills and to the unsocial influences of debasing amusements.

Idleness, intemperance, and other forms of dissipation were predicted by implacable foes of the shorter working day. Few of these evil effects have come to pass with a general reduction in hours of labor. The increase of leisure time has not been abused by most workers, certainly no more so than by numerous wealthy individuals within the leisure class. Indeed, many students of the problem of industrial fatigue have felt that the dissipation of many workers has been a violent mental reaction to excessive hours of continuous and monotonous toil. Drunkenness and other forms of indulgence were sought because they brought temporary relief and immediate enjoyment to the jaded nerves of tired workers. A decrease in the length of the working day and an increase in leisure time will probably result in more wholesome forms of recreation. Dissipation will be succeeded by recreation and education, as the leisure of the workers is increased.

In conclusion, little can be said to justify the existence of excessive hours of work in an enlightened modern community. Among their most conspicuous effects on individuals are loss of health, rest, and recreation and absence of necessary leisure time for educational opportunities, social pleasures, and domestic duties. From a social point of view, it is difficult to justify the fatiguing labor of exploited masses against the indolent indulgence of leisure classes, or to reconcile the long day in some occupations with the simultaneous existence of unemployment and underemployment in other occupations.

Summary.—Long hours of work, as well as inadequate wages, have been a frequent cause of industrial unrest. Hours of labor have often been longest where wages have been lowest. Social welfare demands not only wages sufficient to maintain decent standards of living, but also a working day which will permit sufficient leisure for health and recreation.

Human conservation involves not only the reduction of excessive hours of labor, but also the improvement of working conditions. Modern industry is characterized not only by increased productivity, but also by an intensified nervous and physical strain. Although most employers have not favored a reduction of the hours of labor, many of them have sought to lessen the burden of industrial fatigue by various improvements in working conditions. Many of these are designed to increase the comfort and to preserve the health of the employees. Management is seeking to reconcile industrial efficiency with human welfare.

Although the 8-hour day prevailed in many skilled trades, the 10-hour day was, until recently, the general rule in unskilled occupations. Hours of work were still longer in continuous industries. There was sometimes no provision for 1 day of rest in 7. Excessive hours of labor on the part of some workers and unemployment on the part of others constitute a

serious challenge to our economic system. Leisure and exploitation, like poverty and riches, are striking contrasts in our present social order.

Within the United States, progress toward the 8-hour day for adult male workers has been accomplished by collective bargaining, rather than by state legislation. In the case of women and children, workers in dangerous occupations, employees in public or quasi-public occupations, legislation has restricted the length of the working day. But many groups of unorganized and unskilled laborers have profited neither by legislation nor by collective bargaining in the reduction of the hours of employment.

Even before the great depression of 1929 to 1932, continuous industries had abandoned the 12-hour day and the continuous 24-hour shift. At the other extreme, the 6-hour day and the 5-day week were under discussion. The National Industrial Recovery Act, and the codes formulated in accordance with it, provided for a general reduction in hours of work and the elimination of some of the worst abuses of the past. This act, declared unconstitutional, was succeeded by the Fair Labor Standards Act of 1937, which put a floor under wages and a ceiling over hours; it prohibited the products of child labor from interstate commerce. By 1940, the basic 40-hour week had become a general but flexible standard for American industry.

Questions for Discussion

1. *a.* What does human conservation involve?
   b. What does human exploitation imply?
2. Show how the length of the working day has gradually decreased.
3. What do you understand by a continuous industry and by the 24-hour shift? Illustrate.
4. What do you understand by the new strain in industry? Cite causes.
5. Do shorter hours of work necessarily mean higher labor costs? Why or why not?
6. What do you understand by the "lump of labor"? Show its relationship to shorter hours.
7. Indicate the legal limits of legislation in the United States toward a shorter working day.
8. What do you understand by the 8-hour day? The basic 8-hour day?
9. Indicate the social advantages of a shorter working day.
10. What are its economic possibilities?
11. Show the economic significance on wages and hours of the National Industrial Recovery Act.
12. *a.* Outline the provisions of the Fair Labor Standards Act on wages and hours.
    b. In what ways does it represent a great change in legal philosophy?

Topics for Investigation

1. Legislation toward a shorter day in Europe or in some country of Europe.
2. Industrial South and the working day.
3. Working day in the newly industrialized areas of the world.
4. Progress of the 8-hour day in the United States.

5. Nature and causes of fatigue.
6. Industrial fatigue and the accident rate.
7. Program of some progressive firm for the reduction of fatigue and the increased comfort of its employees while at work.
8. Health program of a progressive employer.
9. Possibility of a 5-day week.
10. Practicability of a 6-hour day.
11. Reduction in length of working day under industrial codes of 1933 and 1934.
12. Administration of the Fair Labor Standards Act.

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CHAPTER X

WOMEN AND CHILDREN IN INDUSTRY

PROBLEMS OF EXPLOITATION

The industrial revolution was characterized by many maladjustments and by flagrant forms of exploitation, such as long hours of work at low wages under miserable conditions; it was also featured by the entrance of women and children into industry.

1. Early Conditions in England.—Children eight years of age, and indeed younger, toiled in the early factories of England. One of their worst features was the apprenticeship of children of pauper parents into what was virtually a juvenile white slavery. These children were abused and driven to their work, which often lasted 12 hours at a stretch. They were given food of the coarsest kind and housed in bleak, uncomfortable barracks. In some cases, the children went to work in two shifts, one at night and the other in day, so that the beds of these little workers never became cold. Accidents were frequent, disease was common, and excessive toil soon put an end to their unhappy lots.

A parliamentary investigating committee discovered even worse conditions in the mines, where little children were being utilized to drag coal cars through narrow, underground passages. Women and men worked side by side, sometimes almost naked, in the damp, unwholesome shafts. The mere recital of the facts in testimony made unnecessary any discussion about the desirability of reform in mining conditions; a regulatory act was promptly passed.

2. British Legislation.—Fear of the physical degeneracy of the working population finally overcame the prevailing laissez-faire, or let-alone, philosophy. The first important British factory law, known as the Health and Morals Act of 1802, put a 12-hour limit to the work of children in the cotton mills. This modest restriction was better than none at all. The law of 1802 is important in that it marked the initial step; it showed how bad prior conditions must have been.

In spite of the opposition of manufacturers, an even more significant factory law was passed in 1833, the year following the Great Reform Bill of 1832. It provided that no children under nine years of age might be employed, and those from nine to thirteen years of age might work only 8 hours a day. Young persons from thirteen to eighteen years of age might not work over 12 hours a day, and none of these hours could be at night.

The British Half Time Act of 1844 put women workers in the same category as young persons and applied to them the same restrictions as to hours of work. A corps of inspectors was created, and factory regulation became effective in fact as well as in law.

The next factory act was that of 1847; it limited the work of women to 10 hours a day. Since it was unprofitable to run many factories without women and children, the 10-hour day gradually became a reality for men, as well as for women and children.

A law, passed in 1842, regulated working conditions in the mines. It prohibited all underground work by females and by boys under thirteen years of age.

Subsequent legislation raised still further the standards of child labor in Great Britain. An act of 1920 proscribed child labor and instituted the 8-hour day for young persons.

3. Situation in America.—The development of the factory system in the United States produced on a small scale conditions similar to those of England. The beginning of the textile industries in New England, for example, was likewise characterized by the employment of women and children. Idleness had no part in Puritan traditions, and a century ago it was regarded as philanthropic to create factory employment for the wives and children of adult male workers. Alexander Hamilton and other early protectionists made use of this argument in their plea for a tariff.

The development of manufactures in this country was accompanied by the employment of children under sixteen years of age for 12, 13, and even 14 hours a day. This situation gradually improved because of remedial legislation in many states of the industrial East and Northeast. Amelioration, however, was sporadic, for the United States, unlike Great Britain, has been a federal government; the matter of child-labor legislation lay within the province of the individual states.

With the recent growth of an industrial South, the evils of child labor reappeared in this new manufacturing section. Perhaps it is more accurate to say that this problem assumed a different form. Women and children had long been engaged in picking raw cotton and in doing chores on the farm. Child labor is an agricultural as well as industrial problem.

4. World-wide Aspects.—The problem of child labor today is no longer an English or an American problem; it has become a world problem. The industrialization of Germany, France, Italy, and Central Europe was followed by the industrialization of Russia and the Balkans. Manufacturing plants were established in ancient lands of the Orient, such as Japan, China, India, and Egypt, and in new countries of South America, such as Chile and Argentina. Very often there is neither legislation nor an enlightened public opinion to interfere with the exploitation of the

human as well as the natural resources of these countries. Recent observers in the Orient have reported that some child-labor conditions there paralleled those in England a century ago.

5. Nature of Child Labor.—Child labor may be regarded broadly as any work of children under conditions that interfere with the opportunities for physical development, education, and recreation which children require. It is the working of children at unfit ages, for unreasonable hours, or under unhealthful conditions.

For statistical purposes, child labor is generally defined as the gainful employment of persons between ten and fifteen years of age. Gainful employment of children under ten years of age is negligible, although it can be found in some agricultural occupations, such as berry picking, and in some city street trades, such as selling papers and shining shoes. Workers over fifteen years of age are often referred to as young persons rather than as children.

6. Extent of Child Labor.—The number of children reported legally at work varies greatly from the number of children actually at work. Hence official reports are apt to underestimate the amount of child labor. The problem of child accounting is complicated also by the existence of part-time work, self-employment, and labor in the homes or on the farms of parents, relatives, and "friends." A complex situation is further confused by differences in the provisions of various state laws and by differences in the efficiency of various state departments of factory inspection and local bureaus of compulsory school attendance. The absence of uniform conditions and standardized forms of reporting makes all estimates mere approximations.

The number of children gainfully employed rose steadily from slightly over 1 million in 1880 to almost 2 million in 1910. Although the absolute number of employed children almost doubled in this generation, their ratio to the entire number of children in the same age group in our total population increased only slightly, to a degree so small that it may be explained in terms of a more complete recording. Hence it seems safe to conclude that the proportion of child labor remained fairly constant from 1880 to 1910, although absolute numbers rose markedly.

A great decrease in child labor has taken place within the last generation. The number of employed children under fifteen years of age fell by almost 50 per cent in the decade from 1910 to 1920, and again by almost 50 per cent in the following decade, from 1920 to 1930. This represents a reduction in absolute numbers of children gainfully employed from almost 2 million in 1910 to a little over 1 million in 1920, and to 667,000 in 1930. The percentage of the total child population declined from 18.4 per cent in 1910 to 8.5 per cent in 1920 and to 4.7 per cent in 1930.

This decline in child labor has been due to the formulation of public sentiment against it and to the passage of numerous state laws. Legislation has repeatedly raised the age of compulsory school attendance and the age at which working papers may be issued. These higher standards reflect not only educational progress and humanitarian interest, but also the enlightened attitude of organized labor and its grave concern over the chronic unemployment problem. The passage of the Federal Fair Labor Standards Act in 1938 almost eliminated child labor from industry, although not from agriculture or from petty trades.

7. Occupations and Earnings of Children.—The character of child labor can be seen by a study of the occupations in which it has played a considerable part. It may be said that children have entered almost any industry from which they are not excluded by law and in which their unskilled labor and limited physical strength could be exploited.

Occupations of children may be divided into five major groups, which, listed in order of relative importance, are (1) agriculture; (2) manufacture; (3) trade; (4) domestic and personal service; and (5) clerical occupations. Agriculture has claimed a decreasing portion of the decreasing number of gainfully employed children, for 61 per cent of all gainfully employed children were on farms in 1920 as compared with 45 per cent in 1930. The percentage of children gainfully employed in manufactures, but not their absolute number, increased from 17 per cent of all gainfully employed children in 1920 to 22 per cent in 1930. Although their total number decreased, the relative portion of children employed in trades, domestic and personal service, and clerical occupations remained fairly constant from 1920 to 1930, in which year each of these three groups comprised from 8 to 10 per cent of all gainfully employed children.

Children of the cities have been employed chiefly in department stores and mills, where employment certificates are generally required. On the other hand, children do a considerable amount of labor of which there is no record. Some of this is legal, but much is illegal. Thus industrial homework or the sweatshop claims many children who are unable to obtain employment certificates to work in factories. Street trades, such as those of newsboys and bootblacks, are also hard to eliminate and even to regulate. The same is true of agriculture, which employs, part time and even full time, far more children than the records show. The unrecorded, if not illegal, employment of children in numerous other occupations makes the problem of child labor of greater magnitude than the census figures indicate.

All studies of child labor reveal the fact that the earnings of children have been pitifully small. Except for war emergencies and inflationary periods, they have averaged from $3 to $5 a week. This is insufficient to

supplement the family income, or to warrant their loss of educational opportunity through gainful employment.

8. Causes of Child Labor.—The minute subdivision of labor which accompanied the introduction of the factory system lessened the need for craftsmanship. Little strength or intelligence is required to feed and tend many machines. Hence this labor can be performed by children. Moreover, such labor is generally plentiful and cheap.

An indifferent public opinion is another causal factor. Although cheap goods may take a fearful toll in the health and welfare of workers, they can easily be sold. Organizations, such as consumers' leagues, have inaugurated a campaign of popular education to inform the public as to the social cost of some bargains. It maintains an honor roll or white list of firms whose working conditions are satisfactory and which, therefore, warrant public patronage.

Another causal factor in the problem of child labor is the necessity for self-support. Poverty demands that the child's pitifully meager wages supplement the family income, even to that small degree.

Finally, there often is inadequate or ineffective education. The child may be glad to leave school as soon as he is permitted to do so by the compulsory school law. Discipline is necessary, but it may be found irksome. The subjects taught may be neither practical nor interesting. The modern school, however, is providing a curriculum sufficiently diversified to appeal to the needs and capabilities of various groups of children.

9. Effects of Child Labor.—The effects of child labor may be grouped in a threefold division: first, effects on the child; second, effects on society; and third, effects on industry. Of course, all these are overlapping and interdependent.

The physical effects of child labor are often bad. Childhood is the period of physical growth, which requires an abundance of fresh air, freedom, and activity. The monotony of repeated operations of the same character is a poor substitute for the self-expression of play and the intellectual stimulation of the school. Again, the moral atmosphere of the working child is sometimes unwholesome. At best, child labor is apt to stunt the physical, intellectual, and moral growth of the individual child.

Illiteracy and child labor are ugly twins, which appear and disappear together. Perhaps it would be more accurate to regard adult illiteracy as a product of child labor. In the single decade from 1920 to 1930, illiteracy was reduced from 6.0 to 4.3 per cent of the total population ten years of age and over. This was due, in part, to the current and prior reduction in child labor. Nevertheless, there are still several million illiterates in the United States.

The effects of child labor on society are injurious. It tends to break down family life by removing the child from his normal and proper place in the home. The young wage earner may become independent of parental authority. At best, his opportunity to rise out of a blind-alley job is limited, and he gradually becomes accustomed to low wages and low standards. Nevertheless, the present army of child workers are destined to become the fathers and mothers of the next generation.

Finally, the effects of child labor on industry itself are bad. It is not always cheap, even from an economic point of view. It lowers the efficiency of the worker, because a dollar earned before the age of thirteen must be subtracted several fold from later earning capacity. Moreover, the labor of children is wasteful and dangerous. Their inefficiency is a frequent source of both human and economic loss.

10. State Regulation of Child Labor. *a. Past Progress.*—Child-labor legislation in the United States was attempted first by Massachusetts in 1836, when a law was passed providing for the instruction of children employed in factories; its motive was educational rather than recreational. In 1842, the working day for children in Massachusetts was limited to 10 hours a day; this law applied to children under fourteen years of age in the textile mills and to children under sixteen in other manufactures. Other states had child-labor laws on their statute books by the time of the Civil War. For the most part, however, these early acts were unenforced or unenforceable. There was generally no effective system of factory inspection, and only flagrant violations were punished.

Massachusetts again took the lead in child-labor legislation with the passage of the laws of 1866 and 1867. Manufacturing industries were forbidden thereby to employ children under ten years of age; and children from ten to fifteen years of age might not be employed for more than 60 hours a week, *i.e.*, for more than 10 hours a day. A system of factory inspection was provided and penalties for violations of the law were exacted. A minimum of schooling was required of all children.

In 1903, Illinois passed an act which marked a new era in child-labor legislation. This law prohibited children under fourteen years of age from working in factories and insisted that they remain in school until that age. The example of Illinois was followed by other states, and child-labor legislation in the United States was raised to a new and higher social plateau.

b. Present Problems.—The standardization of child-labor laws has been difficult, because this legislation has been within the province of the individual states. However, the National Child Labor Committee, a private agency, has urged higher standards and suggested more uniform provisions for legal enactment by the various states. The creation of the

Federal Child Labor Bureau in the U.S. Department of Labor was another step upward toward uniformly higher levels.

Although all states now have laws on the subject of child labor, they vary greatly in the adequacy of their provisions and in the stringency of their enforcement. The minimum age of employment has been raised to fourteen years in most states, to sixteen years in many states, and to eighteen years in some states. There are numerous loopholes in many of these laws; there is also much laxity in their enforcement.

Meanwhile many states have been raising the age of compulsory school attendance and requiring higher educational qualifications for working papers. At the same time that they have been raising the minimum working age, they have been reducing the maximum working hours for those in gainful employment. The laws of most states are still weak in their provisions concerning the employment of children in agriculture and domestic service. This situation is due, in part, to the fact that the enforcement of adequate child-labor standards is more difficult in agriculture, domestic service, and the street trades than in manufacturing and mercantile establishments.

11. Essentials of Child-labor Legislation.—There are certain fundamentals in all satisfactory child-labor laws. Numerous welfare bodies have attempted to standardize these requirements and to draft model child-labor laws in conformity therewith. Such laws must be clear and specific in language. Moreover, they must provide effective machinery for the enforcement of their provisions. A salaried corps of inspectors must be created with power to prosecute violations of the law. While many employers seek to cooperate in enforcing the law, others have been guilty of secret evasion or open violation.

The minimum age at which a child should be permitted to work should be sixteen. Some states have advanced this minimum to eighteen years. No exception should be made in the case of children of pauper parents. State laws on child labor should be correlated with those on compulsory education. Gainfully employed young persons claiming to be above the legal minimum age for employment should be required to present working papers issued by the proper governmental authority. Their working conditions should be regulated carefully in the interests of safety, health, and morals. No youths in their teens should be permitted to work more than 8 hours a day. Night work should be forbidden, especially in the case of young women. Dangerous trades and occupations attended by demoralizing influences should not be open to young persons.

12. Federal Legislation against Child Labor.—It was impossible to bring all states up to such uniformly high standards of child-labor legislation. Hence various civic associations began to agitate for Federal legislation on the subject. Public opinion apparently was ready for the

establishment of a national minimum standard for child labor, but, as will be seen, the courts were loath to regard such legislation as constitutional.

The first national child labor act was passed in 1916; it gave a year to employers to make the necessary adjustments. This law forbade shipment in foreign and interstate commerce of goods produced in factories employing children under fourteen or employing children under sixteen for more than 8 hours a day or for more than 6 days a week or in the evening hours. This law was not in operation for a year when it was declared unconstitutional by the Supreme Court,[1] which held it to be an undue extension of the interstate-commerce powers of Congress, which might not be used to prevent child labor in industries within individual states. The effect of this decision was a general lowering of child-labor standards throughout the country.

Indefatigable enemies of child labor did not abandon their fight for a national law but sought other legal grounds than the interstate-commerce power of Congress. They planned another national child-labor law, based on the Federal taxing power. Thus the revenue act of 1918, approved in 1919, levied a tax of 10 per cent on the net profits of mines, mills, canneries, etc., employing children under the ages and conditions specified in the first national child-labor law. This second Federal child-labor law, however, was as ephemeral as the first. It was held to constitute usurpation of the powers of individual states, which were within their residual constitutional rights in regulating child labor within their own boundaries as they saw fit. The Supreme Court[2] declared that the second Federal child-labor law was an undue extension of the Federal powers of taxation. These judicial decisions were received unfavorably by labor organizations and by enlightened public opinion.

13. Proposed Child-labor Amendment.—As there appeared to be insuperable constitutional obstacles to a Federal child-labor law, the only legal redress for this problem seemed to lie in the passage of an amendment to the Federal Constitution. In 1924, such a child-labor amendment was drawn up and passed by both houses of Congress with the necessary two-thirds vote.

This proposed child-labor amendment is only an enabling measure, by virtue of which the Congress may, if it so desires, pass a national child-labor law. Reformers hope merely to standardize child-labor legislation and to provide a legal *dead line* in the sense of a minimum standard for conditions of child labor throughout the country. Child-labor laws of many progressive states might continue to be in advance of minimum Federal requirements. Although the proposed amendment limits the

[1] *Hammer v. Dagenhart*, 247 U.S. 251, 1918.

[2] *Bailey v. Drexel Furniture Co.*, 259 U.S. 20, 1922.

authority of individual states in this regard, it does not prevent them from passing their own laws on the subject of child labor.

The text of the first two sections of the amendment read as follows:

Section 1. The Congress shall have power to limit, regulate, and prohibit the labor of persons under eighteen years of age.

Section 2. The power of several states is unimpaired by this article except that the operation of State laws shall be suspended to the extent necessary to give effect to legislation enacted by the Congress.

The great expectations of labor leaders and social reformers were not realized, for public inertia and private prejudice alike worked against the adoption of the proposed child-labor amendment. In the following decade the legislatures of a half dozen states, all in the West, ratified this amendment, but the legislatures of over a score of states rejected it. Other states delayed action.

The great economic depression of 1929 to 1933 drew public attention to the problem of child labor, not so much because of its evil effects on children as because of its supposed displacement of adult workers. Consequently, public sentiment against child labor, which had lain dormant since the passage by Congress of the child-labor amendment in 1924, awoke from its indifference about a decade later. Many states which had previously rejected or long ignored this amendment subsequently ratified it.

14. Federal Codes and Fair Labor Standards Act.—The National Industrial Recovery Act of 1933 empowered the President to approve for or to impose upon each trade association an industrial code. Most of these codes contained restrictions against child labor. The blanket code for all recalcitrant or hesitant industries, issued in the summer of 1933, made it illegal to employ any person under sixteen, except that persons from fourteen to sixteen might be employed outside mechanical or manufacturing industries for not more than 3 hours a day, between 7 A. M. and 7 P. M., in such hours as would not interfere with schoolwork. When the National Industrial Recovery Act was declared unconstitutional by the Supreme Court in 1935, these industrial codes were invalidated and Federal regulation of child labor was again rendered impotent.

The Fair Labor Standards Act of 1938 was, as we have seen, an attempt to salvage the social benefits of the industrial codes of 1933. It imposed minimum wages and maximum hours on industries engaged in interstate commerce. It also forbade the employment in mines and manufactures of children under sixteen years of age. Young persons of sixteen or seventeen were prohibited from employments designated as dangerous or unhealthy.

This Federal regulation of intrastate industry was based on the interstate-commerce powers of Congress; it assumed that the raw materials and finished products of intrastate industry flowed through the channels of interstate commerce. Although its provisions were more drastic than, and its legal basis was similar to, those of the first Federal child-labor law of 1916, the Fair Labor Standards Act of 1938, including its prohibition of child labor, was upheld by the Supreme Court, which completely reversed its former position and fully exposed the progress made toward a more liberal philosophy through changes in its membership.[1]

15. Women in Industry Compared with Children.—The problem of women in industry is not new, because women, as well as children, have always been important factors in economic production. The early development of the arts, such as manufacturing pottery and weaving textiles, was largely woman's share in primitive culture. The new feature is the gainful employment of women for wages in factory and office, instead of their employment for sustenance at home, as was the case on the farm and under the domestic system.

The economic causes of women's entrance into industry were often the same as those affecting children, and the social consequences were somewhat similar. From the standpoint of society, the effect on family life of the employment of women may be unfortunate, especially in the case of mothers forced to leave small children. An important social function of the family is that of socialization, or the preparation of children for their larger life in society. This cannot be accomplished in a family life disrupted by the absence of mother or children from home.

Mature women cannot be denied their right to independence and self-support, for the women-in-industry movement is but a part of the larger field of political and economic equality into which they have entered. Nevertheless, it is necessary to protect women in the exercise of their new freedom. Therefore laws have been passed to regulate the industries into which women may enter, so that their surroundings may be healthful and sanitary. In general, it may be said that the problem of women in industry is one of regulation, whereas that of children in industry is one of elimination.

For physiological reasons the efficiency of women in certain industries is not so high as that of men, although in other kinds of work women may surpass men. Again, women's health and vitality, like those of children, are more seriously impaired by the strain of industry than are those of men. The wages of women, like those of children, have often been pitifully small, for until recently they have generally been unorganized

[1] *United States v. Darby*, 61 Supreme Court, 451, 1941; *Opp Cotton Mills, Inc. et. al. v. Administrator of Wage and Hour Decision of Department of Labor*, 61 Supreme Court, 525, 1941.

and in an unfortunate bargaining position. Legislation on behalf of both groups is necessary not only for these reasons, but also because of the unfortunate social consequences of their industrial exploitation.

There exists as great a discrepancy in the laws of various states concerning the labor of women as of children. Similarly, the courts have declared unconstitutional many laws designed to protect them.

16. Increasing Number of Women in Industry.—The growing number of women in industry can be seen from the following figures from the United States census; they cover a period of fifty years. The following table gives the approximate number of women gainfully employed, their percentage of the total number of women of ten years of age or more in the general population, and their percentage of the total number of all individuals gainfully employed for the past half century.

WOMEN GAINFULLY EMPLOYED[1]

Year	Number of women gainfully employed (10 years of age and over)	Per cent of women in population (10 years of age and over)	Per cent of all gainfully employed
1880	2,647,000	15	15
1890	4,005,000	17	17
1900	5,319,000	19	18
1910	8,076,000	23	21
1920	8,550,000	21	21
1930	10,752,000	22	22

[1] U.S. Bureau of the Census, Census of Occupations, Abstract Summary, 1932, pp. 3–5.

In 1940, there were 12,846,565 female workers over fourteen years of age, who constituted 25.5 per cent of the total female population over fourteen years of age. This was slightly greater than the 1930 percentage of 24.3. This increase was confined to women workers between twenty and sixty years of age; it was greatest in the age group between twenty-five and forty-four years. Even before the "effeminization of industry" during the Second World War, one out of every four adult women in our population was gainfully employed, and one out of every five gainfully employed persons was a woman. By December, 1942, there were over 15 million gainfully employed women in the United States, and one out of every four workers was a woman; 4 million women were in war jobs.

17. Married Women in Industry.—The growing tendency of women to remain in industry or business after marriage can be seen from the table on page 238, also prepared from returns of the United States census.

The number of married women gainfully employed in 1930 was six times as great as in 1890. There was a 60 per cent increase in the single decade from 1920 to 1930. The number of married women employed

quadrupled from 1900 to 1930, whereas the number of all women employed merely doubled in the same thirty years. The number of married women employed increased far more rapidly than the total number of married women in the population as a whole.

MARRIED WOMEN GAINFULLY EMPLOYED

Year	Number of married women employed	Per cent of total number of married women in population	Per cent of total number of women gainfully employed
1890	515,260	4.6	13.9
1900	769,477	5.6	15.4
1910	1,890,661	10.7	24.7
1920	1,920,281	9.0	23.0
1930	3,071,302	11.7	28.9

It is evident then that not only are more women and a greater proportion of them gainfully employed than a generation ago, but also a greater number and proportion of them are retaining their positions after marriage. It was formerly said that women were merely loaned to industry and eventually found their rightful place in the noblest of all occupations—that of home making. But these statistics make such a statement obsolete or false. If women are merely loaned to industry, these loans have increased in number and changed in character from a short-time to a long-time obligation.

The increasing number and proportion of married women gainfully employed demonstrate that marriage does not necessarily bring a release of women from breadwinning activities, but frequently entails greater economic responsibilities. On the other hand, many married women continue employment because of the additional comforts which their independent incomes afford them. Some married women continue their business or professional careers because they enjoy such work and prefer it to household drudgery. This is an economic expression of the new freedom of women in harmony with its political expression through woman suffrage and its social expression through divorce. Finally, the First and Second World Wars greatly accelerated the entrance of women into industry and markedly increased the tendency of women to retain gainful employment after marriage.

18. Occupations of Women.—Changes in the character of employment of women are as interesting as its mere increase. Passing from the quantitative to the qualitative aspect of this problem, the following broad occupational groupings have been most important among women workers: (1) domestic service, (2) agriculture, (3) industry, (4) commerce and business, and (5) professional life.

The changing character of work done by employed women can be seen by a comparison of the 1930 census statistics with those for 1870. It is pictured in Chart 39, which traces percentages and not absolute numbers. Hence relative changes in occupational tendencies are clear, but the absolute increase in number of employed women is not apparent.

The relative importance of agriculture to women workers decreased markedly, even more markedly for women workers than for all workers; agriculture claimed 21 per cent of all employed women in 1870 but only 7 per cent in 1930. The declining relative importance of domestic and personal service is less marked and less steady, falling from 53 per cent in 1870 to 28 per cent in 1920, but rising to 33 per cent in 1930. Manu-

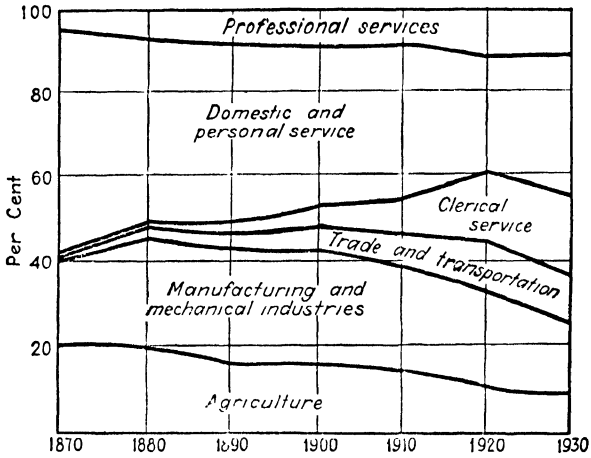


CHART 39.—Occupational distribution of gainfully employed women (16 years of age or over) (1870 to 1930) (expressed in percentages of total for each census year). (*Reproduced from "Recent Social Trends," vol. I, p. 717.*)

facturing and mechanical industries declined slowly and steadily in relative importance, falling from 20 per cent in 1870 to 18 per cent in 1930, in spite of the fact that they employed in absolute numbers more women than before and in spite of the fact that these occupations increased both relatively and absolutely for all workers.

On the other hand, the other three occupations of women grew, not only in absolute numbers, but also in relative importance. First in rate of growth was the clerical group, which increased from 0.4 per cent in 1870 to 19 per cent in 1930. Next in order came trade and transportation, increasing from 1 per cent in 1870 to 12 per cent in 1930. Finally, the professional group, which had employed only 6 per cent of all women workers in 1870, doubled its relative importance to 12 per cent in 1930.

19. Hours and Working Conditions.—The problem of excessive hours and miserable working conditions is even more serious in the case of

women than in the case of men. Woman's work is not so likely to be finished when she leaves the factory or office. Moreover, she is more susceptible to fatigue than is man. For these reasons, as well as because of the greater possibility of exploitation, legislators have been more willing to limit working hours of women than those of men.

Excessive hours, overtime employment, and night work, nevertheless, have been common among women workers, frequently employed in open or secret defiance of existing statutes. Although the legal 8-hour day for women had been introduced into many states, the 9- and 10-hour day long prevailed. Social and biological reasons alike necessitate a short working day and week for women in industry.

Surroundings of working women are as important as the number of hours they are employed. Conditions in this respect also have been unsatisfactory. Although working environments must necessarily vary in different industries and places, there are some common standards of decency and comfort. For illustrations, seats, restrooms, and sanitary toilet facilities should be provided for all women in industry.

20. Inadequate Wages of Women.—The wages of many women have been insufficient to support themselves and hopelessly inadequate to maintain a family. Attempts have been made to justify their inadequacy on the grounds that they were sufficient for single girls living at home or for "pin money" to supplement the family income of married women.

Public attention was first drawn to the low wages of women workers in 1899 by an important report of the U.S. Industrial Commission, which revealed that many girls and young women did not receive sufficient wages to meet their necessary living expenses, particularly in large cities. The 1900 census found that a quarter of all women workers, sixteen years of age or over, received less than $4.50 a week and that the median wage for this entire group of women workers was only $5.64. A comparison of these wages with current costs of maintaining a single woman, living independently, disclosed their gross inadequacy to permit a minimum standard of physical health, of comfort, and even of necessities. The inadequacy of the wages of women, seeking vainly for self-support, contributed to poverty and prostitution.

The minimum-wage standard set for women and girls dependent on their own earnings has been variously estimated because of local differences and frequently revised because of changes in costs of living. For example, the minimum standard was raised by the Minimum Wage Boards of Massachusetts and Minnesota in 1914 from $8 a week to $12, and in 1915 to $15.50. The peak was reached at the height of inflation in 1920, when a minimum-wage rate of $16.50 a week was prescribed for women workers in the District of Columbia.

A study of the wages of women in industry was made by the National Industrial Conference Board.[1] It was based on an analysis of twenty-five manufacturing industries. The findings of this organization disclosed that average weekly earnings of women in industry rose rapidly from $7.84 in 1914 to $19.06 in 1920. This rise was even greater than that in costs of living, and the 1920 average was greater than the minimum cost of living just prescribed. The war prosperity was followed by the depression of 1920; women who had been taking men's jobs were replaced, in part, by returning soldiers. Money earnings of women fell briefly and proportionately; they then leveled off like costs of living and other wages.

During the economic depression of 1929 to 1933, the wages of most workers were lowered; the standard of living wage for women workers was shattered. Sweatshops paid a mere pittance to the makers of low-priced women's dresses. Unorganized factory workers in the garment industries and knitting and weaving mills were paid starvation wages. Union wage scales were lowered and even the unions themselves were weakened or broken. Frances Perkins, Secretary of Labor under President Roosevelt, the first woman to become a cabinet minister, struggled ardently to improve the deplorable conditions among women workers which faced her on the assumption of her duties. Minimum-wage legislation was passed by the Federal Government and by many states.

21. Reasons for the Low Wages of Women.—The low wages paid women workers have resulted from many causes. One has been their relatively weak bargaining power; it is only recently that women have developed effective labor organizations. Again, women are generally more immobile than men; they cannot or will not go so readily from one employment to another. The labor of women was formerly concentrated within a relatively few industries, in which they were forced to meet the competition of many other women seeking part-time or temporary employment. Finally, many women have not been entirely self-supporting and completely dependent on their own earnings; the failure of this group to demand or to secure a living wage has forced down the general level of wages for all women workers.

22. Inequality of Wages.—There are two aspects of the problem of low wages of women. The one concerns the inadequacy of the wages of many women to maintain decent standards of living; this problem is attacked by minimum-wage laws. The other aspect reflects the lower wage scale of women in those occupations in which they compete with men; it raises the question of equal pay for equal work.

The exploitation of women has assumed many forms, chief among which has been sex discrimination in wages. In general and until

[1] National Industrial Conference Board, "Wages in the United States, 1914–1927."

recently, the better paid jobs have been held by men; the less remunerative occupations were relegated to women, who entered or intruded upon industry at a later time and on less favorable terms than men.

Some employers have paid lower wages to women than to men doing the same work. In extreme cases, the piece rates for women workers were only one-half those paid men in the same occupations. The study of the earnings of workers in industry by the National Industrial Conference Board revealed that average wages of women have been not only lower than the average of all workers but lower than the average of male unskilled workers.

When women took the places of men who went to war, piece rates were sometimes lowered in these industries. The United States Government adopted a policy of wage equality for men and women in most occupations in which both were employed, but in private employments the substitution of women for men at lower wage rates was common. Many returned soldiers discovered that their employments had been thrown open to women who would work for less wages than men were willing to accept.

"Equal pay for equal work" was finally given recognition by the American Federation of Labor, although certain trades in which the controversy had waged most strenuously became exclusively women's trades and others exclusively men's trades. It is alleged that, for the same grade of labor, wages are still lower in women's trades than in those of men. Recent salary schedules for teachers in most communities have been planned without sex discrimination. The U.S. Department of Labor through its Women in Industry Service has gone on record that "wages should be established upon the basis of occupation and not on the basis of sex. The minimum wage rate should cover the cost of living of dependents and not merely for the individual."

Within recent years, an increasing number and proportion of women in industry have begun to organize unions. Moreover, many women have been entering mercantile pursuits and the professions on more nearly equal terms with men. The acquisition of the franchise by women must mean that their political equality will be supplemented by economic equality. The so-called "Women's Movement" has begun to express itself in industrial democracy, as well as in political and social democracy. As time goes on, it is likely that this problem of sex discrimination in wages will become less serious.

23. "Equal Pay for Equal Work" Arguments.—There are various arguments for the failure to pay equal wages to men and women in the same or similar occupations. It is alleged that many women have merely themselves to support, and that some of them do not have even this responsibility. On the other hand, men are more apt to have

dependents and greater financial responsibilities, for they are frequently heads of families and the chief breadwinners.

It is also argued, though with less force, that the financial needs of women are less than those of men, because of their ability to do such things as the preparation of their own food and the manufacture of their own clothing. Back of this argument, however, is the traditional feeling that the rightful place of women is the home. It ignores or minimizes the substitution of the factory system for domestic production.

Another argument for wage inequality is that men are more efficient than women. The greater physical strength and perhaps the exceptional skill of men prevent women from entering many trades and so perpetuate some wage differences based on sex. On the other hand, there are other occupations in which women are more efficient than men, because of their greater capacity for detail, routine, and painstaking work.

The relative efficiency of men and women should not be discussed as a general question, but only for particular occupations. Women's industrial qualifications are different from, not inferior to, those of men. Moreover, many are based on differences in the social environment, rather than on the physical difference of sex. As time goes on, many traditional differences will tend to decrease.

On the other hand, the fact of sex cannot be ignored. Time lost through illness and domestic causes is proportionately greater among women than among men. Moreover, legal restrictions concerning the employment of women cause an added expense to the employer, which he is apt to deduct from the wages of his women employees.

24. Sweatshops.—An important phase of the problem of women in industry is the sweatshop. Although sweated trades are frequently those in which women are employed, the problem is not exclusively such. Old men, young children, and the infirm also are represented here. Indeed, it may be said that the sweating system exists wherever there is an abundant supply of labor helplessly dependent on unscrupulous employers. It is an extreme form of economic exploitation which has existed in most large cities, especially those congested by newly arrived immigrants and Negroes.

Although involving conditions growing out of the industrial revolution, the sweatshop is to be contrasted to, not connected with, the factory system. One of its characteristic features is that the work is done in private houses of sweaters or living rooms of workers, not in large supervised factories. For this reason some students of the problem have regarded the sweatshop as a modern survival of the domestic system of manufacture, which antedated the industrial revolution. The fact that it is industrial homework makes difficult supervision and regulation.

Although there have been many sweated industries, such as the manufacture of cigars and artificial flowers, the clothing industry was the most flagrant example. Before the development of labor organizations and slum-clearance programs, the sweatshop flourished among the Jewish garment workers in the lower East Side of New York City. The essence of the system was the farming out to competing contractors of material cut for garments, which, in turn, was distributed among individual workers to be sewn into finished garments. The cutting of the cloth was generally done by an expert under the direct supervision of the manufacturer, after which the pieces were delivered to contractors who had agreed to make them up at so much per garment. The contractor or sweater might furnish a room, the sweatshop, and have the garments finished there under his supervision, or he might distribute the pieces among workers to be sewn in their own homes. In both cases, there was a complete absence of collective bargaining, as the sweater made individual agreements with his workers. His profit lay in the margin of difference between the contract price and the wage cost of the garment. Workers were paid low wages on a piecework basis. Pace setting and rate cutting were frequent. Hence workers sweated to earn a pittance.

25. Causes and Effects of Sweatshop.—The causes of the sweatshop are those common to the employment of women and children. The work is simple in character; its chief requirement is cheapness. The existence of isolated groups of ill-adjusted workers, dependent and defenseless, facilitates sweating. Finally, the seasonal aspect of some light industries is conducive to it, for manufacturers hesitate to install capital which cannot be used continuously; the small shop or sweatshop is frequently utilized to care for a temporary demand in excess of existing plant capacity.

Wages in sweated industries are not only low, but also unequal for the same work. Self-interest impels the sweater to drive the hardest possible bargain with every worker; he capitalizes individual helplessness and misfortune. Competition for industrial homework among the needy and ignorant drives down its return to still lower and more unequal levels, until, finally, the limit of a bare subsistence wage is reached by the most unfortunate.

Other evils of the sweating system have been long hours of work and irregular employment. During the spring and autumn, for example, garment workers have toiled far into the night, in spite of the fact that they had scant employment in previous weeks. Again, sweating breaks down industrial standards by introducing and even inducing the competition of submarginal groups. The infirm, the crippled, and the whole group of partially employables may be utilized by the sweater in busy seasons.

Finally, conditions of work under the sweating systems were unwholesome, if not intolerable. The wearers of fashionable tailored-to-measure clothing have often been indifferent to or ignorant of the miserable surroundings in which their garments were finished. Conditions of employment in many sweatshops have been dangerous, not only to the workers, but also to consumers and the general public. As sweatshops have been located in homes of sweaters or in rooms of workers, adequate factory inspection has been well-nigh impossible.

26. Regulation of the Sweatshop.—The very nature of the sweatshop has impeded its supervision. Nevertheless, licenses have been required for premises on which sweated trades were to be conducted. Licensing opened the possibility of governmental inspection. Contractors could be held responsible for work done within licensed premises. However, a sufficiently large corps of efficient and honest inspectors has been difficult to secure. Moreover, such regulation could only improve working conditions. It could not eliminate evils of low wages and unequal wages, which problem has been approached by minimum-wage laws.

The sweatshop has been attacked more effectively by organized labor than by state legislation. Low wages in sweatshops meant low wages in factories. Organized labor has been insistent in its efforts to eliminate, rather than to ameliorate, the sweatshop. Thus the Amalgamated Clothing Workers and the International Ladies' Garment Workers have included prohibitions against industrial homework in their joint agreements.

27. Protective Legislation for Women.—Child-labor legislation has been paralleled by similar protective legislation for women workers, for both these groups suffered under sweatshop conditions. As women and children were employed on a considerable scale in the manufacture of textiles, these industries were among the first to be regulated by those states in which they flourished.

In the wave of humanitarianism which swept the country just before the Civil War, the organized women workers of New Hampshire secured the 10-hour law of 1847, which has been regarded as the first of its kind in the country. Other New England and Middle Atlantic states followed, but the movement came to naught because these laws specified that the 10-hour day prevail in "the absence of an express contract requiring greater time." Employers took advantage of this loophole in the law by making such contract a prior condition of employment.

After the interruption of the Civil War there was a resumption of efforts to restrict the hours of women in industry. A Massachusetts law of 1874 sought to limit the employment of women and minors to 10 hours a day and 60 hours a week. A "joker" in the law, however, provided that only "willful" violations could be punished; consequently,

this law did not become effective until 1879, when it was amended in this respect. Similar laws were then passed by other states. In the closing years of the nineteenth century, progressive states raised their standards to still higher levels by reducing the legal limits from a 10-hour day to an 8-hour day.

After a half century of evasion had been terminated by plugging the various loopholes in the divergent laws of the different states, the foes of protective legislation for women in industry began to raise constitutional objections in the path of social progress.

It was contended that these restrictive laws interfered with the individual right of freedom of contract. Thus the Supreme Court of Illinois[1] found unconstitutional a law of that state which provided an 8-hour day for women in factories; it held the law to be "purely arbitrary restriction" on freedom of contract, which women, as well as men, were guaranteed by the Constitution. On the other hand, a Nebraska court upheld a similar law for that state; it declared "that women and children have always, to a certain extent, been wards of the state."[2]

The United States Supreme Court[3] upheld the constitutionality of an Oregon 10-hour law for women workers in factories. Their health was regarded as vital to group welfare, and the law was viewed as a legitimate exercise of the police power of the state. The effects of this legal victory were powerful and immediate. A short time afterward the Superior Court of Illinois reversed the decision of a decade before and declared that the law of that state, which limited the number of hours that women might be employed in certain industries, was not class legislation and therefore not unconstitutional. In 1914, an 8-hour law for women was similarly sustained in the state of California. Apparently a national victory had been won concerning the constitutionality of legislation restricting the hours of employment of women.

Before the wave of social legislation following the great depression, only half a dozen states had no legal restrictions as to the number of hours that women might be employed. In some states, the 8-hour day was specified; in others, the 9-hour day; and in still others, the 10-hour day. In those states where the maximum number of hours was expressed on a weekly basis, it varied from 48 to 60 hours per week. In other states, there was a combination of daily and weekly bases. In progressive states, the standard had been raised to the 8-hour day for women workers.

Most states made exception to the law in the case of women employed in agriculture or domestic service. In many instances, the maximum

[1] *Ritchie v. The People*, 155 Ill. 98, 1895.
[2] *Wenham v. State*, 65 Nebraska 394, 1902.
[3] *Muller v. Oregon*, 208 U.S. 412, 1908.

number of hours was prescribed only for certain classes of industries, as, for illustration, manufacture or certain specified manufacturing industries. Some states absolutely forbade the employment of women in dangerous and unhealthy occupations, such as mining; their employment at night was either forbidden or restricted. Some states prohibited employment of women for several weeks before and after childbirth.

The elimination of the sweatshop has been sought through legislation against industrial homework, except for members of the immediate family who live on the premises. Long hours have been shortened by provisions requiring higher wage rates for overtime; low wages have been raised by minimum-wage laws.

28. Purpose and Types of Minimum-wage Legislation.—The minimum-wage law attempts legal protection against exploitation. Its avowed purpose is to secure a living wage and to prevent employment at less than this minimum level. It developed as a weapon of last resort against sweated industries. Although there is now a Federal statute applicable to all industrial workers, the scope of minimum-wage laws in this country was originally limited to state laws for women.

Minimum-wage laws may be either general in their application or limited to specific groups of workers in particular occupations. They may either prescribe a flat rate of pay as a minimum or proscribe the payment of wages less than sufficient to maintain a minimum standard of living. In the latter case, there must be some provision in the law for the creation of a permanent administrative board to determine from time to time and from place to place what constitutes a minimum standard of living and hence a minimum wage. Changes in the general price level, local differences in costs of living, and occupational variations in wage schedules make this type of minimum-wage law more flexible than the specification of a particular minimum wage. Lack of rigidity, however, can be a source of weakness as well as of strength. A specific law may be unjust and require revision, but a nonspecific law may lead to delay and result in evasion.

29. Origin of Minimum-wage Laws.—Like other progressive labor legislation, minimum-wage laws originated in Australasia. The conciliation boards of New Zealand, established in 1894 for the compulsory arbitration of industrial disputes, were authorized to fix a minimum wage within sweated industries. Victoria, Australia, in 1896, passed the first independent minimum-wage law in a similar attempt to regulate sweated industries. Administrative power was vested in especially created boards composed of representatives of both workers and employers under the chairmanship of a nonpartisan umpire. The experiment was regarded as successful enough to be expanded in 1900 from the six specified sweated industries to nearly all the important industries of the

province. In the first decade of the twentieth century, other Australian states passed similar legislation.

Great Britain enacted the Trade Boards Act of 1909 for the regulation of certain sweated industries. The jurisdiction of these boards was gradually extended to include men as well as women, skilled as well as unskilled workers, and agricultural as well as industrial labor. Minimum-wage legislation in some form spread also to the continent of Europe and to the Americas.

30. Minimum-wage Laws in the United States.—Massachusetts was the first state in this country to pass a minimum-wage law. An act of 1912, limited to women, provided for the creation of an administrative board to determine from time to time what would constitute a minimum wage. The prescribed minimum wage was not mandatory; the law relied for its enforcement on the weapons of publicity and public opinion. Nevertheless, it was fairly effective.

The following year, eight other states passed minimum-wage laws for women, most of which however were mandatory in character. Before the outbreak of the First World War, the movement was well on its way over the country. These minimum-wage laws, unlike those of Europe and Australasia, were limited in their application to women. Organized labor in America originally opposed extension of minimum-wage legislation to adult male workers, even in the sweated industries.

The constitutionality of mandatory minimum-wage laws in this country was long a vexed issue. In 1917, the Supreme Court of the United States by an even decision refused to set aside a decision of the Superior Court of Oregon in support of its minimum-wage law. Consequently, the courts of most states refused to declare unconstitutional the minimum-wage laws of their respective states.

The legal status of minimum-wage laws seemed fairly well established, when events suddenly took a very different turn. In 1923, the United States Supreme Court,[1] by a five-to-three verdict, declared unconstitutional the District of Columbia mandatory-wage-board law, which it held to be an unwarranted interference with the constitutional guaranty of freedom of contract. This important decision invalidated other mandatory minimum-wage laws in various states throughout the Union; in 1924, the Wisconsin minimum-wage law for women and children was similarly declared unconstitutional; in 1927, the minimum-wage law of Arizona was likewise invalidated.

Distressing conditions during the great depression aroused public opinion to the necessity of social action against sweated industries. Testimony given during the formulation of the N.R.A. codes revealed miserably low wages in many occupations. Consequently, minimum-

[1] *Adkins v. Children's Hospital*, 261 U.S. 525, 1923.

wage legislation was revived. New York took the lead in 1933; it was followed that same year by several other states. These laws copied the general outline of the standard bill drawn up by the National Consumers' League. The minimum wage suggested was at first to be permissive to allow time for rebuttal and readjustment, but nine months after the decision of the state board its minimum wage was to become mandatory on the entire industry. Despite its desirable new features and its wide general acceptance, the New York minimum-wage law was held[1] in 1936 to be unconstitutional by a five-to-four decision of the Supreme Court, which viewed the new law as essentially similar to the old law for the District of Columbia.

Although mandatory minimum-wage laws had twice been declared unconstitutional by the Supreme Court of the United States, the stimulus of the Roosevelt reconstruction program encouraged liberal legislators to persist in the formulation and passage of other state minimum-wage laws. Their efforts were finally and unexpectedly rewarded. The Supreme Court again reversed itself by another five-to-four decision;[2] the state of Washington minimum-wage law was declared constitutional in 1937. The effects of this important decision were immediate and wide. Within the next year over a score of states had minimum-wage laws in effect within their own borders. The Federal Government in 1938 passed the Fair Labor Standards Act, which provided mandatory minimum wages.

31. Federal Minimum-wage Law.—While the states were experimenting with minimum-wage laws and struggling with conflicting court decisions, the Federal Government was preparing a similar program on a broader scale. Not only did this Federal legislation cover all states and all industries engaged in interstate commerce, but it included men as well as women. Although possessing considerable flexibility and adaptability, the law was mandatory rather than permissive.

The Fair Labor Standards Act, known also as the Minimum Wage and Maximum Hour Law, sought to put a floor under wages and a ceiling over hours; it also attempted, as previously explained, to exclude children from all industries engaged in interstate commerce. It created the Federal Wage and Hour Administration for the enforcement of the provisions of the law. It charged the Administrator with the duty of appointing tripartite industrial committees, composed of an equal number of employers, employees, and public representatives, empowered to investigate industrial conditions, to hold public hearings, and to make recommendations to the Administrator for higher wage rates than the legal minima for their respective industries.

[1] *Morehead v. New York ex rel. Tipaldo,* 298 U.S. 587, 1936.

[2] *West Coast Hotel Co. v. Parrish* 300 U.S. 379, 1937.

The salient provisions of the act with respect to wages (found in Section 6) are as follows:

1. During the first year from the effective date of this section (October 24, 1938) wages at the rate of not less than 25 cents an hour.
2. During the next six years from such date not less than 30 cents per hour.
3. After the expiration of seven years from such date, not less than 40 cents per hour, or the rate (not less than 30 cents per hour) prescribed in the applicable order of the administrator of the act.
4. At any time after the effective date, not less than the rate (not in excess of 40 cents an hour) as prescribed by the Administrator.

In striking contrast to the long struggle of state minimum wage laws to achieve legal validity, characterized by decades of doubtful or denied constitutionality, the Federal Minimum Wage and Maximum Hour Act was promptly sustained in 1941 by a sweeping decision[1] of the United States Supreme Court. Presidential appointments to the Supreme Court had proved more effective than his attack on it.

32. Nature and Problem of Minimum Wage.—The determination of a minimum wage at a specific time for a particular group of workers is as difficult as the former problem of the determination of a minimum standard of living. Indeed, they are merely different aspects of the same problem. An Australian court, for illustration, once defined a minimum wage as the sum sufficient to cover "the normal needs of the average employee regarded as a human being living in a civilized community."

Any such definition, however, is no answer to the problem; it is merely a restatement of the general question. It raises immediately such other issues as: What are normal needs? Who is the average employee? Should a minimum wage be determined on the basis of a decent standard of living for a single individual or for a family of four or five? Should the minimum wage be the same for a man as for a woman?

Furthermore, such a concept of a minimum wage is more social than economic; it involves a human rather than a pecuniary analysis. It ignores evaluation of the services rendered in a particular labor market. Justice Sutherland of the United States Supreme Court declared the mandatory minimum-wage law for the District of Columbia[2] to be an unwarranted restriction on freedom of contract. He stated that it set wages without regard to the value of the workers' services in an arbitrary fashion and in violation of the "due process of law" phrase in the Fifth Amendment.

[1] *United States v. Darby*, 61 S. Ct. 451, Feb. 3, 1941; *Opp. Cotton Mills Inc. et al. v. Administrator of Wage and Hour Division of Department of Labor*, 61 S. Ct. 525, Feb. 3, 1941.

[2] *Adkins v. Children's Hospital*, 261. U.S. 525, 1923.

In short, it may readily be admitted that any minimum wage, no matter how carefully formulated, may involve social injustice, legal inequity, and economic difficulty. Nevertheless, social injustices may be less with minimum-wage laws than without them, and economic welfare may be increased, rather than decreased, by eliminating the employment of individuals at wages too small to permit health and working efficiency.

33. Objections to Minimum-wage Laws.—The familiar laissez-faire argument contends that wage fixation by arbitrary legislative or administrative bodies is impossible or undesirable. Wages are determined by the interaction of the forces of supply and demand for various kinds of labor. To increase the wages of one group by any given sum, it is contended, is merely to subtract from the wages of another group an equivalent amount.

On the other hand, advocates of minimum-wage legislation contend that wage boards merely seek to determine and enforce the competitive rate of wages for a specific labor group. An unscrupulous employer or sweater is thus prevented from taking advantage of a situation or cutting under the normal competitive wage through his strategic bargaining position. Moreover, minimum-wage laws restrict the field of competition to competent employables by eliminating submarginal workers whose competition scales down the wages of all workers in those industries. Perhaps that is a fairer statement than the bald objection that minimum-wage laws interfere with the free play of natural economic forces in wage determination.

Other objections to minimum-wage laws have been advanced from the point of view of the employer and industry. It is contended that minimum-wage laws put a premium on inefficiency, because the worker must be paid a given wage whether or not he earns it. Again, the effect of such legislation may be the expulsion of industries from the state affected into less progressive ones where there are no minimum-wage laws.

From the point of view of the employee, it is contended that minimum-wage laws tend to undermine the strength of organized labor. Employees should look to the unions, rather than to the state, for an increase in wages. Moreover, skilled workers fear that the minimum wage may become the maximum wage and that the less efficient workers may profit at the expense of the more efficient ones.

In the last place, it has been argued that society would suffer from minimum-wage legislation because of a resultant increase in the size of the pauper group. Many wretchedly paid workers receive such low wages because they are mentally or physically subnormal. Thus sweat-shop workers include defectives and dependents, the incompetent, the

indifferent, and the ignorant. Is this group economically capable of producing sufficient income to justify for itself a "living wage"? To insist on a minimum wage would mean that no employer would hire members of this partially employable group, who would therefore be thrown back upon society for support. Under the present system, however, submarginal workers are capable of earning at least a small sum, by means of which they can partially support themselves at a decent standard of living or fully maintain themselves at subnormal planes of living.

Such an argument possesses little merit. The small earnings of submarginal workers do not compensate for the utter demoralization of the entire labor market by cutting under a decent wage. Indeed, one of the chief aims of the reconstruction program of 1933, and the codes submitted in accordance therewith, was the elimination of the submarginal laborer, the submarginal employer, and the submarginal farmer.

34. Successful Experience with Minimum-wage Laws.—Nearly all the evidence that has been collected thus far goes to show that minimum-wage legislation has raised wages; this has been particularly true of the sweated trades. Moreover, there has not been a general leveling down of wages above the prescribed minimum. Instead, there has frequently taken place a general raising of the total wage schedule from the new minimum-wage basis as a higher level from which to measure still higher differentials.

The effects of minimum-wage legislation on unemployment have been found to be less severe than had been predicted by critics, although many subnormal workers have been thereby thrown out of employment. But even if some increase in the dependent group is assumed, this price is not too much to pay for the elimination, as a factor in wage determination, of the ruinous competition of the submarginal worker. It has been alleged that his low wage tended to fix wages for the whole group in many sweated trades. Minimum-wage legislation has forced an economically desirable distinction between the unemployed and the unemployable groups.

For these reasons, organized labor in America has come to feel that it has little to fear and much to gain from minimum-wage legislation. Its earlier attitude of suspicion has changed to one of encouragement and support.

Experience has shown that the removal of an industry from one state to another because of the passage of a minimum-wage law has generally been more of a threat than a reality. The additional labor cost has not been so great as expected, because of the increased productivity of the better workers. The passage of a Federal act covering all workers in

all industries producing through interstate commerce throughout the entire country has rendered this objection obsolete, if not invalid.

Summary.—One of the great maladjustments of the industrial revolution in England was the employment of young children in factories and mines. The situation gradually improved during the past century by the passage of social legislation. The rise of manufactures in America and other parts of the world was attended by the development of similar problems of exploitation. Children have entered almost all occupations requiring little strength or skill. Their meager earnings do not justify the loss of educational or recreational opportunity which is involved. Child labor decreased markedly in this country during the opening decades of the present century, owing to the passage of effective child-labor laws by many states.

The United States is a constitutional and federal government. Before 1933, the regulation of child labor fell within the residual powers of the individual states. Consequently, it was difficult to secure uniformly high standards of child-labor legislation throughout the country. The laws of some states were excellent, but those of other states were woefully inadequate. Two Federal laws for the regulation of child labor were declared unconstitutional. A Federal amendment has been passed by a two-thirds majority of both houses of Congress, but it has not been ratified by three-fourths of the states. This amendment is merely an enabling measure, giving to the Federal Government power to regulate the employment of children under eighteen years of age. The Federal Fair Labor Standards Act of 1938 prohibited child labor in interstate commerce.

The development of the factory system was accompanied by the entrance of women into industry in addition to their former occupations of agriculture and domestic service. Recent years have seen the entrance of women into business and the professions. Moreover, a greater number and ratio of married women are evident.

Various states of the Union have passed different pieces of legislation for the regulation of the hours and working conditions of employed women. Some states have passed minimum-wage laws, for investigation has shown that the wages of women in most occupations have been inadequate and in some cases far below the wages of men for the same work. The mandatory minimum wage, at first regarded as unconstitutional, was finally upheld by the Supreme Court of the United States. The Federal Fair Labor Standards Act put a floor under wages and a ceiling over hours. It extended the general principle of a decent standard of living minimum to all workers in interstate commerce.

The sweatshop represents a survival of the domestic system of manufacture. Goods are made in the home, rather than in the factory.

Wages are low and unequal in the sweated industries, for individual and not collective bargaining prevails. Organized labor has constantly opposed homework in its struggle against the sweatshop. The state has made recourse to minimum-wage laws as its weapon of last resort against sweated industries.

Questions for Discussion

1. What was the theory of *laissez faire*, and how did it oppose the passage of child-labor legislation?
2. Is child labor a local, a national, or an international problem? How? Why?
3. Is it essentially an industrial problem? Why or why not?
4. Outline causes of child labor.
5. Outline effects.
6. What are some essential points in a model child-labor bill?
7. Does the proposed child-labor amendment prohibit the employment of children under eighteen years of age? Explain.
8. Show the increasing number of women in industry.
9. Show the expanding character of occupations represented.
10. What are some causes of the low wages paid to women?
11. What are some essentials of the sweating system?
12. How can the evils of sweating be overcome?
13. Give arguments for and against minimum-wage laws.
14. Discuss the constitutionality of minimum-wage laws.
15. Show the similarities of the problems of child labor and of women in industry.
16. Give wage provisions of the Fair Labor Standards Act.

Topics for Investigation

1. Early English conditions of child labor and of women in industry.
2. Legislative reform in Great Britain during the first part of the nineteenth century.
3. Child labor today in the cotton mills of the Orient.
4. United States Constitution and child-labor legislation.
5. Child labor and the industrial South.
6. Child-labor laws of your own state.
7. Effects of the First and Second World Wars upon the problem of women in industry.
8. "Equal pay for equal work."
9. Minimum-wage legislation in Australasia.
10. Recent minimum-wage legislation in Europe.
11. Wage provisions under codes of the National Industrial Recovery Act.
12. Wage provisions of the Fair Labor Standards Act.

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CHAPTER XI

INDUSTRIAL HAZARDS AND SOCIAL INSURANCE

PROMOTION OF SAFETY

1. Extent of Industrial Accidents.—The lack of reliable statistics makes it impossible to state definitely the number and severity of industrial accidents within the United States. The jurisdiction of the Federal Government is limited to interstate commerce. In some states statistics of industrial accidents are well kept, but in other states they are incomplete and inaccurate. There is no uniformity in methods of classifying and recording industrial accidents.

The future development of protective legislation for workers must be accompanied by the compiling of fuller and better statistics. The general acceptance by all states of standardized forms for reporting industrial accidents would be a great step forward. The American Association for Labor Legislation devised and urged the adoption of such an improved form.

In 1923, it was estimated that annual accidents involving permanent total disability were about 1,700, those involving permanent partial disability were over 100,000, and those involving temporary total disability were over 2,000,000. The annual number of fatalities in industry was estimated at over 21,000.[1] In contrast to this high mortality rate for American industry, the International Labour Office reported that the number of fatal work accidents in 1923 was 2,082 in France and 3,302 in England. In Germany, in 1925, the corresponding number was 5,285. In other words, the combined annual industrial fatalities of France, England, and Germany were less than half those in the United States, in spite of the fact that the number of the combined peoples or workers in all these countries was greater than that of the United States.

There has been no great or permanent reduction in the number of industrial accidents, which vary with seasons of the year and with swings of the business cycle. Some students fear a generally upward trend. However, any long-run increase, if true, has not been disproportionately greater than the increase in population. Again, much of the apparent increase has been due to more complete recording of industrial accidents to satisfy more exacting requirements for compensation.

Although safety devices have been installed, new hazards of industry have continued to harass the march of technological progress. Con-

[1] *Monthly Labor Review*, November, 1923.

sequently, the annual number of industrial fatalities for the entire United States is still from 20,000 to 35,000, and the annual number of all industrial accidents totals several million. These figures are exclusive of nonindustrial accidents at home or on the road and of sickness or death due to occupational diseases. If these cases of injury or death were included, the estimates would be several times as large. For illustration, the number of people killed annually in automobile accidents during the 1930's averaged over 30,000; it rose from 1,291 in 1911, through 11,666 in 1922, to 37,205 in 1937.

2. Costs of Industrial Accidents.—Because of industrial accidents alone, a quarter billion working days have been lost each year, representing a total annual cost of at least a billion dollars. Such attempts to express in pecuniary terms the financial costs of industrial accidents are as futile as similar efforts to evaluate the financial costs of war. Their overwhelming monetary costs ignore the more terrible but less measurable human sacrifices of life and limb. These estimates, however, do demonstrate that the carnage of "peaceful" industry has been comparable to that of war, at least before total warfare against civilian populations as conducted during the Second World War.

> To employ a telling comparison frequently made, the industrial accidents of a single year in this country alone equal the average annual casualties of the American Civil War, plus all those of the Philippine War, increased by all those of the Russo-Japanese War. As many men are killed each fortnight in the ordinary course of work as went down with the *Titanic*. This single spectacular catastrophe appalled the civilized world and compelled governmental action in two hemispheres; while ceaseless day-by-day destruction of the industrial juggernaut excites so little attention that few states take the trouble to record the deaths and injuries.[1]

That is the gruesome picture painted a generation ago by an early crusader for safety in industry. This is the fearful price in human life that American has been paying for speed, carelessness, ignorance, and indifference.

3. Causes of Industrial Accidents.—Causes of industrial accidents are commonly divided into two general categories of mechanical and human causes. Many disasters represent a combination of both factors. More specific causes of industrial accidents vary with individuals, occupations, and particular instances.

Industrial accidents originate in the dangerous character of present methods of production and in the failure of the human element to adjust itself thereto. Modern technology utilizes new and powerful forces of nature, such as steam and electricity, whose powers of destruction

[1] DOWNEY, E. H., "History of Work Accident Indemnity in Iowa," pp. 1–5.

are as great as their powers of production. Industry is now carried on by complicated machinery instead of simple tools; the machine operator must be even more alert and careful than the craftsman. Even so, he is menaced by the ignorance or indifference of other similar specialists. The mistake of a railroad switchman or the carelessness of a miner, for illustration, may result in the killing or maiming of numerous other individuals.

Human nature is temperamental, not automatic; it may be unfit for the task placed upon it by modern mechanization. The worker cannot adjust himself immediately and completely to the routine of his task or to the rapid motions of the machine. Attention is bound to wander and fatigue to set in. That the human organism cannot respond quickly, accurately, and continuously to the machine is as serious a cause of industrial accidents as mechanical defects and dangers. Moreover, the consequences of failure of the human element are far greater under modern conditions than before the era of mechanization.

4. Dangerous Occupations.—Industrial accidents can be classified according to occupations, some of which are more hazardous than others. Among the most prolific of accidents are railroads, mines, manufactures, and construction work.

a. Railroads.—The Interstate Commerce Commission has long compiled statistics of accidents on railroads, the hazardous character of which has thus been magnified because of their relatively complete records. Although their early history was characterized by numerous and serious accidents, remarkable progress toward increased safety of passengers and employees has been made by American railroads. The improvement of signal devices has lessened the chance of wrecks, and the introduction of steel coaches has decreased the fatality in them. A Federal law requiring the use of automatic couplers, instead of the former hand-adjusted coupling pins, greatly lessened the number of accidents to laborers at work in the yards. As a result of such safety measures, the number of trainmen killed per thousand employed declined from over four in 1917 to less than two in 1921 and to less than one in 1924. This splendid record testifies eloquently to what has been achieved toward increased safety on the railroads. It indicates what could be done in other industries by increased care and improved supervision.

b. Mines.—The regulation of mines, unlike that of interstate commerce, falls within the jurisdiction of the individual states. Consequently, there is wide divergence throughout the country in protective legislation. The Federal Bureau of Mines has sought to discover the extent of, causes of, and possible remedies for our numerous fatalities in mines; it is an important fact-finding and information-disseminating body, possessing only powers of publicity and recommendation.

Mining industries in the United States have taken an average annual toll of more than 3,000 lives, or at the rate of over three persons killed per thousand workmen. Coal mines have averaged each year over four persons killed out of each thousand miners working on a 300-day basis.[1] In contrast to many European countries, our fatality rate in mining is high in relation to the number of workers employed, although not so high in relation to output. These statistics indicate that the United States has achieved a rapid rate of production, but at a fearful human cost. Incidentally, our methods of mining have been wasteful of natural, as well as human, resources.

The reduction of mining fatalities requires adequate legislation and its strict enforcement. If left to individual initiative, some mines would be operated in a fairly safe manner, but others would not. The absence of safety legislation would penalize the humane operator in competition with careless and reckless operators, since the installation of safety devices would increase his costs of producing coal as compared with those of indifferent operators. Hence there is necessity for coercive measures of general and not local significance. The federal character of our government prevents the passage of adequate national legislation, such as prevails in many European countries. Standards of safety in mining are fairly high in some American states but woefully inadequate in others. The passage of workmen's compensation laws has led to the introduction of safety devices, the establishment of testing stations, and the compilation of better records.

Many precautions should be taken in mining, because of its dangerous nature. Thus, the use of safety lamps and approved types of explosives, the proper support of passageways, and other protective measures reduce mine fatalities. Explosions from *fire damp* can be prevented or reduced by using what is known as "rock dusting." In spite of the educational campaign of the American Association of Labor Legislation, only a few American states have made rock dusting in coal mines compulsory by legislation of this type.

c. Manufactures and Construction.—A similar lack of uniform laws and of reliable statistics is found in manufacturing and building construction. State inspection of factories, buildings, elevators, boilers, etc., is satisfactory in some states but little more than a legal fiction in others.

Some of the chief dangers in manufacturing industries lie in the presence of unguarded machinery and in the continuation of careless methods of production. Although antiquated machinery is scrapped for something better and faster, the same zeal has not been displayed in substituting safer methods of production for more hazardous ones.

[1] U. S. Bureau of Mines, *Bulletins* 246 and 248.

But the passage of workmen's compensation laws in most states has promoted safety in manufactures. Industrial accidents became expensive and therefore uneconomic.

5. Preventive and Remedial Measures.—The prevention or reduction of industrial accidents requires the cooperation of employer and employee and regulation by the state. Insurance companies also are directly interested and actively engaged in the promotion of increased safety, as well as improved health. The safety-first movement has crystallized in the formation of the National Council for Industrial Safety. Its white cross stands for the prevention of injury, just as the red cross stands for first aid to the injured.

The employer should utilize all available safety appliances and employ only the safest industrial methods. In so doing he may be forced to combat the stupidity, carelessness, and indifference of the workers. A campaign of education is often necessary to overcome their ignorance, fatalism, or lack of interest in their own safety. Indeed, safety, like promptness or neatness, is largely a matter of habit. The safe practice and the efficient method become habitual only by continuous repetition. The introduction of guards and other safety devices will not of themselves accomplish the desired result. Workers may ignore them and continue to work along lines of least resistance. The illiteracy of many unskilled laborers or their lack of knowledge of English makes useless the posting of danger signs or precautionary measures printed in that language. Pictures are far more effective, if every picture tells a story. Actual drills and close supervision, however, are the best methods of promoting safety.

The tremendous toll of industrial accidents requires governmental action in addition to voluntary cooperation. Although private associations of socially minded employers have advanced the ideals of health and safety in industry, coercion by the state has been necessary. Workmen's compensation laws made industrial accidents costly to employers; the result was the introduction of safety devices and safer methods. Safety in industry now means lower financial expenses, as well as lower human costs of production. This is one argument in favor of social insurance, *viz.*, that it tends not only to compensate the victims of accidents and their families, but also to reduce the risks of industry.

States have passed various other laws for the protection of workers against the numerous and serious hazards of modern industry, but an adequate system of factory and store inspection is necessary for the enforcement of such legislation. However, standards of enforcement, like those of legislation, vary greatly from industry to industry and from state to state. The federal character of our government makes difficult the attainment of uniform legislation and universal standards of enforcement.

Provision should be made, not only for the prevention of industrial accidents, but also for surgical and medical care of those who fall victims to them in spite of all possible precautions. For those workers who are permanently disabled, an educational program is necessary for complete or partial rehabilitation. The purpose of such training is to make these injured soldiers of industry capable of self-support and thus to prevent them from becoming public charges. In 1921, the Federal Government passed the Smith-Hughes Act, which provided Federal subsidies for state boards of vocational education. Their functions were expanded from the rehabilitation of wounded veterans of the First World War to retraining programs for victims of industrial accidents.

6. Occupational Diseases.—The risks of the worker include not only sudden industrial accidents, but also subtle occupational diseases. Dangerous trades include those occupations which slowly but surely undermine the health of the worker, as well as those which are hazardous to life and limb. Such trades sometimes result in specific occupational diseases, but more often in impaired health or an undervitalized condition which makes their victims succumb to ordinary diseases.

First among these dangerous trades are those which deal with *poisonous substances.* The effects of industrial toxins may be relatively rapid or slow, permanent or temporary, severe or slight. Lead poisoning, for illustration, is a common disease among workers employed in industries where white lead is made or used; the ultimate effect of continued contact with that substance may be paralysis, insanity, or death. Several European countries have reduced the mortality in these trades by forbidding such practices as dry rubbing and by insisting upon similar precautionary measures. Other dangerous poisons, such as arsenic, are sometimes used in the manufacture of dyes, paints, and colors. Workers with phosphorus, used in the manufacture of matches, sometimes contract a deadly and characteristic disease known as "phossy jaw." This is one of the first and few dangerous trades against which the Federal Government has legislated.

A second source of danger lies in exposure to an excessive amount of *dust.* The delicate membrane of the lungs becomes spotted with foreign particles and loses power of resistance to tuberculosis and other respiratory diseases. Coal mining is a dangerous occupation for this reason, as well as because of its liability to accidents. Precautionary measures, such as screening the coal wet, will help to reduce the amount of dust in the air. Even more dangerous dusts are those generated in grinding metal, polishing stone, and using abrasives. Suction tubes and blowers should be utilized to draw vitiated air away from the workers. Where dangerous gases and poisonous fumes are produced, the work should be done under a hood which produces a forced draft. Management should install such devices and insist upon their use by employees.

A third source of danger lies in sudden *changes of temperature or air pressure.* Steelworkers and those employed near hot furnaces are easy victims of pneumonia during the winter months. Underground workers in mines and tunnels sometimes develop a serious and characteristic disease known as "the bends" from frequent and sharp changes in air pressure.

7. Preventive and Remedial Measures.—The reduction of occupational diseases, like the prevention of industrial accidents, calls for concerted action by employees and employers, by the state and the consuming public. A campaign of education is equally necessary to overcome ignorance and indifference. Governmental legislation is similarly necessary, but uniformity is likewise difficult because of differences in state laws. A dangerous trade may merely be driven from a state with rigid laws to one with lax standards. Legislative action should

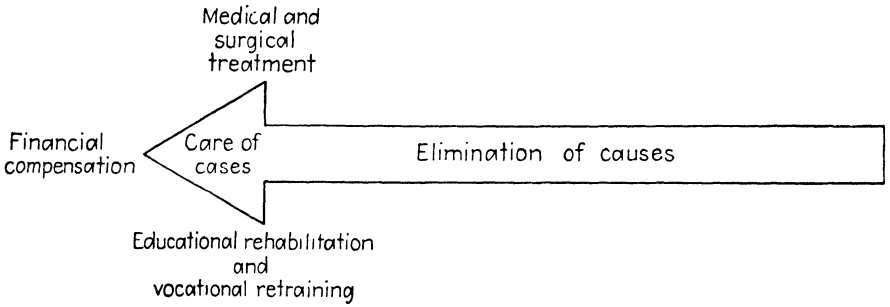


CHART 40.—Spear of defense against industrial accidents.

sometimes take the form of abolition and sometimes that of the regulation of dangerous practices. The American Association for Labor Legislation and other bodies have struggled to advance standards of safety and health throughout the United States.

Although most sufferers from occupational diseases were formerly excluded from the benefits of workmen's compensation laws, there has been a growing tendency to regard them in the same legal light as workers injured by industrial accidents. Sufferers from occupational diseases, like victims of industrial accidents, should not be thrown on the human scrap heap of industry or forced to resort to charity. The injured veterans of industry should be cared for by surgical and educational programs of rehabilitation; they should be provided for by social insurance. Meanwhile care of cases should be supplemented by elimination of causes. Chart 40 pictures the spear of defense against industrial accidents and occupational diseases.

8. Economic Factors in the Death Rate.—The safety-first movement has been paralleled by the public-health movement. Although a general

social problem, it has specific industrial phases of special importance. In addition to industrial accidents and occupational diseases, there are numerous other economic factors which affect our national vitality, as measured by the death rate, by the degree of physical fitness of our population, and by the amount of general sickness. Moreover, the economic effects of permanent injury, lingering illness, and premature death are tremendous. Irrespective of its profound human and social significance, the economic implications of human conservation are even greater than those of the conservation of our natural resources.

The pioneer study of poverty by Robert Hunter, referred to in Chap. VIII, testified to the existence of important economic factors in the death rates of different social classes. He estimated that the death rate, even among the highest income group of wage earners, was 50 per cent greater than that among the well-to-do classes of the population and that the death rate among the poorest class was probably not less than three and one-half times as high as that among the more fortunate.[1]

The experience of the Industrial Department of the Metropolitan Life Insurance Company indicated that the mortality rate of occupied males for all ages above fifteen was considerably higher than that found in the registered areas of the United States as a whole; that in the critical period from thirty-five to forty-four years of age the death rate for men insured in this department was over 50 per cent higher than that of the general population; and that between these ages the death rate of the industrial workers from tuberculosis alone was over 100 per cent higher than that in the population as a whole.[2]

9. Economic Aspects of Sickness.—General sickness, as well as premature death, is a cause of much human suffering and great economic waste.

Professor Irving Fisher estimated that the average number of persons who were sick in the United States was about three million, of whom nearly one-third were within the working period of life. He contended that this represented an annual loss in wages alone of a half billion dollars. If the costs of medical attention were included, the total annual cost of sickness would approximate a round billion dollars a year.[3]

A more recent estimate of our national sickness bill by Doctor L. I. Dublin is even greater. His study of a half million insured individuals indicated that about 2 per cent of our population is constantly sick and that the average individual in the United States loses about 7 days each year from sickness involving inability to work. This means a loss of

[1] HUNTER, R., "Poverty," p. 144.

[2] DUBLIN, L. I., "Monthly Statistics of Insured Wage-earners and Their Families," pp. 23 and 52.

[3] FISHER, I., "National Vitality: Its Wastes and Conservation," pp. 741–742.

2 per cent of current production, which in round numbers amounts to more than a billion and a quarter dollars annually. The total cost of the necessary medical care amounts to more than a billion dollars a year additional.[1]

10. Uneven Distribution of Sickness.—Sickness is not evenly diffused throughout our population but affects some groups far more than others. The financial incidence of sickness, like that of industrial accidents, often falls on those individuals and groups least able to bear it. This situation has been described as follows.

> The principal part of the whole burden of sickness in any one year is borne by this unfortunate minority. Among forty-two million people engaged in gainful employment about eight million four hundred thousand will have a disabling sickness lasting more than 7 days during the coming year. The other thirty-three or thirty-four million will escape practically entirely with the exception of minor disabilities. Of those that are sick 65 per cent will suffer disability for less than 30 days. The other 35 per cent numbering nearly three million will be disabled for more than 30 days. Three per cent of those who are sick, or about two hundred and fifty thousand, will be sick for more than 6 months and fully one hundred and twenty thousand of them will be disabled for more than 1 year.[2]

11. Physical Fitness of Our Population.—The physical fitness of our population as a whole is far below its potential level and far behind modern standards of preventive and curative medicine. The examination of men for military service during the First World War revealed some alarming facts. According to a report of the provost general, only about 65 per cent of the men between the ages of twenty-one and thirty-one were found fully qualified for military service out of over 3 million men examined between December, 1917, and September, 1918. From this group of men in the prime of life, over 1 million were rejected for military service because of physical defects, many of which might have been removed by proper care and attention in the earlier years of life.

Later and more complete analyses of this great inventory of the physical fitness of the young men of our nation were far from reassuring. Conservative estimates are that at least 30 per cent of the total number of men examined under the Compulsory Selective Service Act were classified as physically unfit. European experience was little better.

American experience of a similar sort during the Second World War did not reveal encouraging evidence of national progress in physical fitness. Of the first two million men examined for military service in 1940–1941, almost one million, or about a half, were rejected because their physical condition was below army standards.

[1] DUBLIN, L. I., "Economics of World Health," *Harpers' Magazine*, November, 1926.

[2] LAPP, J. A., "Advantage of Insurance in Disability, Illness, and Old Age," American Association for Labor Legislation, *Review*, June, 1928, p. 182.

12. Conservation of Human Life.—The death rate is another indication of the kind of civilization to which a group has attained. For illustration, the death rate of Western Europe and the United States is about one-half that of certain registered areas of India and far below that of many Asiatic countries where human life is as cheap as it is miserable.

The average length of life has been lengthened, in spite of the increasing hazards of modern civilization. Thus the death rate of Western Europe and the United States today is only one-half that of medieval Europe, as revealed by the city records of Geneva for the opening decades of modern times. The death rate must have been even higher in earlier centuries and in less progressive communities than Geneva.

Within the past century, and even within the past generation, the death rate of the United States has fallen markedly. "Babies born in 1900 could look forward to an average life of forty-nine years, while the prospect today is sixty years—a gain of eleven years."[1]

This remarkable reduction in the death rate of our population has been accomplished chiefly by the triumphs of modern surgery and the conquests of contagious diseases. Infant mortality has been reduced, but less progress has been made in checking the degenerative diseases of later adult life.

An analysis of specific diseases would go beyond the limits of this text. It is necessary, however, to distinguish between communicable or germ diseases and those which are degenerative or representative of the wearing out of some vital organ. It would seem that the human life span has not been lengthened, but that more people are living more nearly to that natural biologic limit.

Although much has been achieved, far more could be done by an aroused public opinion, sensitive to matters of personal hygiene and public sanitation. Improved working and living conditions have not kept pace with the discoveries of the healing arts and medical sciences. The fatal importance of subnormal planes of living and dangerous working conditions has been indicated. In spite of our remarkable record in advancing the average length of life, the death rate for the United States as a whole, and especially for certain backward communities, has been higher than that in the most progressive countries of Europe.

The public-health movement seeks to reduce mortality and morbidity. Like the safety-first movement, its aim is prevention, as well as cure. It should be fostered by both citizen and physician, employer and employee. Preventive medicine, personal hygiene, and public sanitation are social problems concerning which general education is necessary. Only a negligible portion of our population undergoes periodic physical

[1] DUBLIN, L. I., statistician of the Metropolitan Life Insurance Company, as reported by the *New York Times*, June 10, 1934.

examinations in an effort to discover remedial defects and hidden danger signs before they become serious or chronic. Most of us seek the services of a physician merely when we are seriously ill.

13. Socialized Medicine.—It is commonly alleged that a large portion of our population, who are in dire need of medical, surgical, or dental attention, do not secure competent professional services at all, or at least not in adequate time or in sufficient degree. Again, that portion of our population in the lowest income groups comprises those who are most victimized by quack doctors and spurious patent medicines. The causes of such a situation are the common and related ones of ignorance, indifference, and poverty.

Organized society should not permit such a situation to continue. Sickness and premature death are even more serious than illiteracy. Consequently, the public-health movement is more important than the public-education movement, significant as the latter is. Such a comparison again raises the question whether education is more of a public duty than health. Why not public hospitals, as well as public schools? Of course, private hospitals would continue to exist and private physicians would continue to practice. Public schools have not eliminated private schools or private tutors.

Public hospitals would be open to all who needed medical, surgical, and dental treatment or who wished periodic physical examinations. At the present time, numerous private hospitals are supported partially by public taxation, for they maintain free or low-cost wards and clinics. If socialized medicine has already come into existence, why not recognize it and organize it more effectively?

Socialized medicine would provide health services of various sorts to sick individuals in hospitals or in their own homes. Social insurance, as illustrated by sickness insurance, would go even further and provide cash benefits to compensate, in part at least, for loss of wages during illness.

The Federal Social Security Act of 1935 brought about neither socialized medicine nor sickness insurance. It did, however, stimulate the public-health movement through Federal grants to states carrying on approved programs of public health and rendering special services to mothers, infants, and crippled children. It also advanced educational programs of vocational rehabilitation through additional Federal subsidies to states engaging in such work.

In opposition to socialized medicine, associations of physicians deny that poor people are deprived of the services of private physicians and private hospitals, whose doors are always open to charity patients. Furthermore, they contend that socialized medicine would lower professional standards by substituting mass treatment for individual diagnosis

and by creating impersonal instead of personal relations between physician and patient.

Perhaps a middle ground can be found between the two extremes of state socialism and rugged individualism in the practice of medicine. It may lie in the development of cooperative associations.

Cooperative associations of patients may take the form of savings and insurance groups, seeking to protect themselves against the hazard of sickness by building up a financial reserve, such as Associated Hospital Service, which is available through small, regular, and continuous payments.

Cooperative associations of physicians may permit a general reduction of overhead by the greater utilization of certain common facilities and expensive equipment; they might provide increased specialization and improved diagnosis without loss of the personal touch of the private practitioner. Although excellent for the middle-income groups, it is doubtful to what extent their services could be enjoyed by the lowest income groups in our population.

14. Human Conservation Requires Insurance.—Human conservation involves not only preventive measures for the protection of the safety and health of workers, but also adequate provision for the victims of industrial accidents, occupational diseases, superannuation, ordinary sickness, and old age. Such provisions include financial compensation, medical and surgical care, and educational rehabilitation. These related phases of human conservation have been pictured in Chart 40, page 262.

The very nature of insurance is social; its fundamental principle is the removal of the financial incidence of some great loss from the individuals subject to it and its diffusion over the entire group menaced by this hazard. In other words, insurance substitutes a series of small, definite payments for a large but uncertain financial loss. Hence insurance promotes thrift, provides protection, and fosters conservation.

15. Limitations of Private Projects.—It is possible by relatively small but regular contributions from all employed workers to pay benefits to individual workers or their families in times of distress. Thus some unions have collected unemployment, sickness, and death dues in order to pay benefits to their unfortunate members or their bereaved families. Numerous large corporations likewise have provided contributory or noncontributory benefit programs for their workers. Fraternal organizations, mutual benefit societies, and insurance companies also dispensed charity or met contractual claims against them in case of injury, illness, or death.

Before the passage of the Federal Social Security Act of 1935, such private benefit programs, although common, did not include most workers. Again, their coverage was frequently inadequate both in amount of payment and in number of causes. The great majority of

workers were unprotected against many of the most severe industrial hazards. Many fraternal programs of insurance were not on a sound actuarial basis. Although legal-reserve insurance companies provided some types of industrial insurance, most workers were unable or unwilling to purchase such policies.

16. Necessity of Social Insurance.—Early economists and conservative statesmen held that workmen should provide for themselves against the various risks of industry. They stressed individual thrift and pointed to personal savings as the ultimate reserve in case of emergency. Moreover, the higher wages paid in dangerous trades, or those in which employment was less regular, were regarded as a natural compensation for the greater risks incurred by workers in these occupations.

It has been found, however, that many workmen are financially unable to make sufficient provision against the hazards of serious accident, protracted illness, long unemployment, or old age. Indeed, the risks of industry are often greatest among those groups which are the least able to bear them. The final result is a resort to public or private charity for many families in cases of emergency.

Before the development of workmen's compensation laws and other forms of social insurance, the incidence of industrial accidents, occupational disease, and other hazards of modern industry fell on the sick and injured workers themselves. In case of death of the breadwinner, the financial burden fell on his dependent family. The facts that the laboring class is, for the most part, propertyless and that the workers have but a small reserve of savings on which they can fall back make this situation still more serious. Those who need insurance the most frequently carry the least. It would seem that the lowest waged workers are peculiarly unable or reluctant to take out insurance policies on their own initiative. The necessity of workmen's compensation laws and other forms of social insurance is apparent.

17. Nature of Social Insurance.—Social insurance extends the principle of compensation to most workers affected by the chief hazards of industry. It involves the elements of social coercion on the individual and governmental regulation of the enterprise. Although social insurance may be provided by private insurance companies, it must be extended to all workers and not merely to those who choose to insure themselves or to those workers whose employers see fit to insure their own employees. Again, it must be supervised by the state, although not necessarily administered by a governmental bureau. Social insurance frequently implies state funds and governmental subsidies, but such need not be the case. The final test of a program of social insurance is the existence of adequate, standardized, certain, and cheap benefits to all individuals affected.

Because of the inability or reluctance of the workers to insure themselves against the various risks of industry, the state has been forced to intervene. Governmental action has been justified, not only for humanitarian reasons, but also because social insurance has been found to be more desirable and economical than charity. Legislation has demanded that specific benefits be provided workers under certain conditions. In some cases, workers are compelled to bear a portion of the cost of such insurance by the payment of small premiums. In other cases, the payment of benefits is gratuitous.

The premiums of social insurance may come from the wages of employees, from the profits of the employer, from the public treasury, or from a combination of two or more of these sources. If the worker makes some contribution, the project may properly be termed "insurance." If provided freely by the state or by an individual employer, it is a pension.

18. Types of Social Insurance.—The varieties of social insurance are determined by the different kinds of industrial hazards. The most common types of social insurance are workmen's compensation for the victims of industrial accidents and occupational diseases, health insurance for the sick, unemployment compensation for those out of work, and old-age pensions or insurance for the aged. Life insurance, annuities, and most other forms of insurance against general hazards of life are essentially social in character, although not ordinarily classified under the heading of social insurance.

Social-insurance projects may be classified also according to the degree to which they are paid for by the workers themselves. On the one hand are gratuitous pensions; and, on the other hand, is contractual and contributory insurance. Social-insurance plans may be classified similarly according to the extent to which they are subsidized by the state.

Finally, social insurance may be classified according to its type of administration. Thus there are private companies, state funds, and mutual associations of employers for the administration of workmen's compensation.

19. Employers' Liability Laws.—Before the advent of workmen's compensation laws in Great Britain and the United States, the only redress for an injured workman or his dependents was court action under the common law or under existing statutes covering employers' liability. The burden of proof was on the victim of an industrial accident; litigation was uncertain, slow, and expensive. Lawyers known as "ambulance chasers" took promising cases, paid all legal expenses, and divided the damages with the plaintiff on a "fifty-fifty" basis. If not covered by the law, the injured worker was left to shift for himself. Even if he was

covered by the law, it was difficult for a worker to establish a case under the former employers' liability laws. Moreover, there was little consistency in the awards of different courts for similar cases. Verdicts and damages varied with the sentiments and sentimentalities of different judges and juries.

Under the common law and employers' liability statutes, the legal theory, as well as its administration, was decidedly against the victim of an industrial accident. The injured worker was forced to prove that his employer was solely and directly responsible for his injury. It was formerly held that the worker assumed the natural risks of an occupation when he accepted that dangerous employment. If an accident was a natural hazard of the industry, there was little legal redress for the injured worker.

If an accident was the result, even in part, of the carelessness of the worker himself, his contributory negligence relieved the employer of responsibility. If the fault was that of another worker, the "fellow-servant" responsibility likewise eliminated the liability of the employer. Foremen and even plant superintendents were sometimes held by the courts to be fellow servants. Negligence on the part of the employer was difficult for the injured workman to prove. Damages could not be awarded unless the employee could demonstrate that the employer had not exercised due care in the management of his plant.

20. Principle of Compensation.—The theory and practice of workmen's compensation laws are entirely different from those of employers' liability laws. The insured workman is not forced to appeal to the courts or to bear the expense, delay, and uncertainty of litigation. The question of responsibility for an industrial accident does not arise. Simple proof of physical injury in line of duty is sufficient. Moreover, awards are standardized according to a graduated scale measuring both the seriousness of the injury and the former earning power of the worker.

Compensation for the victims of industrial accidents is now regarded as a cost of production, which the employer must assume or against which he must insure himself. Insurance premiums express relative hazards of different occupations; a reduction in dangers of employment is reflected in lower insurance rates. Consequently, the passage of workmen's compensation laws has given a financial incentive to the safety-first movement. Industrial accidents have become expensive to employers, whereas safety has meant economy.

The consuming public also is forced to accept the financial responsibility of industrial accidents and occupational diseases. The employer comes to regard his insurance premiums in the same light as other expenses of production, which he seeks to pass on to the consumer in the form of increased prices. Hence the passage of workmen's compensation

laws has made the costs, and therefor the prices, of the products of dangerous trades higher than those of safer occupations. This is as it should be. The higher prices of the products of dangerous trades tend to discourage their consumption in favor of the cheaper products of safer occupations.

Industrial accident insurance applies the principle of property insurance to the human risks of industry. Thus workmen's compensation can reimburse an individual for the loss of an arm or a leg only in the sense that it can make up for the reduction in earning power which the industrial accident entails. The worker himself must bear the physical suffering and the human sorrow, but he can pass on to society the monetary losses represented by the industrial accident or occupational disease.

21. Industrial Accident Insurance in Europe.—Germany was the pioneer nation in social insurance; it was Bismarck's weapon against poverty and socialism. Before the close of the past century the German government had provided both industrial accident and sickness insurance for most workers.

The *German* law of 1884 required employers to become members of mutual accident insurance associations, which, under supervision of the Imperial Insurance Office, levied assessments on their members according to the hazards of the occupations. Compensation, according to a fixed schedule, was paid out of this common fund to the victims of industrial accidents or to their dependents. The payment of accident benefits did not begin until an employee was absent 13 weeks, during which period he was paid out of the compulsory sickness insurance fund composed of premiums paid by both employers and employees, and not merely by employers, as in the case of the industrial accident insurance fund; hence the initial burden on employers was lightened. The German law provided for medical and surgical treatment of the victims of industrial accidents, as well as for financial compensation.

Industrial accident insurance was inaugurated in *Norway* ten years later. Instead of providing for mutual associations of employers supervised by the government, as in Germany, Norway created a state insurance fund. Employers were required to pay into this fund premiums in varying amounts, determined by total wages of employees and degrees of hazard of industries. The state itself paid compensation out of this state fund according to a standardized schedule of rates to the victims of industrial accidents.

Great Britain created a still different system of administration in its first Workmen's Compensation Act of 1897. The law prescribed a schedule of benefits for injuries resulting from industrial accidents and it required employers to pay the scheduled amount or portion of wages

to the injured worker or to his dependents. The employer might join an Employers' Liability Insurance Company to cover himself against such liability and generally did so, but there was no compulsion in the matter. The danger of this voluntary system has been that an uninsured employer might become bankrupt, in which case the victim of an industrial accident would become merely one of his unsatisfied creditors.

Workmen's compensation laws then have been administered by *mutual associations of employers* in Germany, directly by the government through *state funds* in Norway, and by individual employers with *optional insurance* in Great Britain. In spite of these differences in method of administration, however, there is a fixed scale of compensation to the injured worker, payment in accordance with which is made compulsory by law.

22. Workmen's Compensation Laws in the United States.—Workmen's compensation laws were the first form of social insurance to become common throughout the United States. Uniformity has been lacking, however, because this legislation falls within the province of the individual states; some followed the British model and others the Norwegian system of administration.

a. Development and Constitutionality.—Maryland, in 1902, was the first American state to pass a workmen's compensation act; it was followed in 1910 by Montana and New York. The courts of these states promptly invalidated these laws as violations of their state constitutions and as confiscation of property without due process of law. An amendment to the state constitution of New York was adopted, and another compensation law was passed in 1914; it was sustained by the state courts. Meanwhile, the state of Washington had passed in 1911 a workmen's compensation law which was held to be constitutional by the courts of that state.

The Supreme Court of the United States finally decided in 1917 that the workmen's compensation laws passed by New York, Washington, and other states were constitutional. Such legislation was held to be a proper exercise of the police power of the individual state in the interest of public welfare; it was not to be regarded as class legislation or as confiscation of property without due process of law; it was not to be construed as a violation of the Fourteenth Amendment.[1]

In the decade between 1910 and 1920, most states of the Union passed workmen's compensation laws of various types. Before the great depression, all states, except a few in the South, had enacted such legislation. In 1940, Mississippi was the only state in this nation without a workmen's

[1] *New York Central Railroad Company v. White*, 243 U.S. 188, 1917; *Hawkins v. Bleakly*, 243 U.S. 210, 1917; *Montana Timber Company v. Washington*, 243 U.S. 209, 1917.

compensation law. There is still no Federal law on this subject for the entire United States, although there are Federal compensation laws for employees of the National Government, for workers engaged in interstate commerce, and for residents of the District of Columbia.

b. Present Features.—Not only the form of administration but also the coverage and benefits of workmen's compensation laws vary greatly from state to state. Domestic and farm laborers are generally excluded. Victims of occupational diseases do not always enjoy the protection of workmen's compensation laws. Rates are generally based on wages of workers, and the percentage paid as benefits varies with the seriousness of the injury. Most states have fixed maximums of modest amounts and time limits beyond which benefits need not be paid.

Workmen's compensation laws represent a distinct advance beyond employers' liability laws as a protective device against industrial accidents. This form of social insurance, the first to develop in this country, has now established itself in the United States. It is still necessary, however, to raise standards to certain uniform levels. Numerous excluded groups, such as the victims of occupational diseases, should be included. In many states the scale of benefits should be raised, the period of payment lengthened, and the waiting period shortened.

23. Sickness Insurance.—*Germany* began its national system of compulsory sickness insurance with the law of 1883. Employers were required to purchase insurance stamps equivalent to the necessary premiums and to see that they were regularly attached to the sickness cards which all insured workers were forced to carry. Employers assumed one-third of the cost of these stamps and deducted the other two-thirds from their workers' wages. The administration of sickness insurance was placed in the hands of sick-benefit associations, composed of employers, employees, and public-spirited citizens, under the supervision of the Imperial Insurance Office.

The German program of health protection involved both physical and financial rehabilitation. It included medical attendance, surgical service, hospitalization, free medicines, and such appliances as spectacles and artificial limbs. After the third day of sickness, half wages were paid, which continued during the period of absence from work, but not beyond a maximum of 26 weeks. Funeral and maternity benefits, as well as pensions for widows and orphans, were added.

German statistics subsequently showed an apparent increase in illness, due partly to the new benefits provided and partly to the fuller reporting of sickness; they also revealed a decided decrease in the death rate and in the amount of pauperism. So popular was this German system of sickness insurance that before the First World War over two-thirds of all individuals gainfully employed were included therein.

The successful experience of Germany induced *Great Britain* to utilize the weapon of sickness insurance in her war against poverty. The Workmen's Compensation Act of 1897 was followed by the National Insurance Act of 1911. Sickness insurance, as well as unemployment insurance, was added thereby to the existing industrial accident insurance. Under the National Insurance Act of 1911, 14 million British wage earners were insured against illness. Premiums were paid jointly by employers and employees, and the state added a subsidy. Responsibility for the enforcement of this law rested on employers, who were required to see that their workers possessed sickness-insurance cards and that the proper stamps were regularly affixed. The benefits of the British system of sickness insurance resembled those of Germany, for it included both medical attention and financial assistance. Flat sums were specified as premiums and benefits in the British law, as contrasted to certain percentages of wages in Germany. Hence it was necessary for the British Parliament frequently to amend the original act and to increase these amounts as the general price level rose.

Important modifications and extensions of the British system of sickness insurance were made in 1920. Thereafter, for illustration, an insured male worker, certified by a physician as incapable of employment because of ill-health, received 15*s*. a week after an initial waiting period of 3 days. After 26 weeks of illness, this weekly benefit was reduced to one-half, but it was continued until the worker was able to resume his employment. The British system of sickness insurance has been operated by approved nonprofit-making societies under the supervision of the Ministry of Health. The worker might choose a commercial company, a trade union, or a friendly benefit society for the administration of sickness insurance.

Before the outbreak of the First World War, sickness insurance had been introduced into several *other European countries*, although in some of them it was restricted to a few occupations. During the war and the following years of reconstruction, sickness insurance was introduced into many other countries and extended more widely in those countries which had already introduced it. At the present time, sickness insurance exists in most European countries, as well as in Japan and in several South American nations.

Although sickness insurance has passed the experimental stage in Europe, it has not found popular support in the *United States*. In spite of the enormous economic burden of illness, this form of social insurance has not made much headway here. Nevertheless, the future development of the public-health movement in this country may be accompanied by compulsory sickness insurance. Public opinion is forming on the subject. An initial step was taken in 1942 by Rhode Island, which extended unemployment benefits to cover absence due to illness. Other

sporadic efforts at this type of legislation have been attempted in the United States, but they have been viewed as paternalistic.

Sickness-insurance laws have been opposed as difficult of administration and as easy of abuse. Some feigning of sickness or malingering might take place in spite of the necessary certification by a medical officer. Advocates of sickness insurance point out in reply that sick benefits are decidedly less than the wages received and that there is an initial exemption period of several days. The purpose of the latter is to lighten the administrative problem by the elimination of minor ailments and short absences from the scheme of sickness insurance.

24. Invalidity Insurance.—Invalidity insurance is a payment of benefits to those who are incapacitated for work by reason of some physical infirmity other than that of old age. Thus the loss of sight or hearing would ordinarily prevent an individual from remaining self-supporting. Such invalidity might not be the result of an industrial accident, in which event it would not come under the provisions of workmen's compensation laws. Even if so covered, the disability might extend far beyond the time limits of sickness insurance. In brief, then, invalidity insurance represents the further extension of the principle of compensation, which developed first for the victims of industrial accidents and military conflicts.

In order to avoid the baneful effects of charity, the state might well pension invalid members of society in proportion to their loss of earning capacity. For illustration, the number of occupations open to the blind is necessarily small and their possible earnings are very meager. Hence certain communities have provided that the blind, who were not recipients of charity or of workmen's compensation, might receive a stipend from the public treasury.

This principle was incorporated in the Social Security Act of 1935, which provided that the Federal Government would match dollar for dollar state pensions to the blind up to a limit of $15 per person per month. This maximum was increased in 1939 to $20 for those states paying an equal amount. In the early 1940's the total number of blind persons receiving such assistance was about 50,000.

25. Mothers' Pensions.—Mothers' pensions are gratuitous payments by the state to needy widows forced to care for families. In general, such pensions are small in amount and restricted to those who have no other means of support. Their aims are the substitution of a pension system for charity, the reduction of infant mortality, the maintenance of the home, and the prevention of young children growing up under conditions of pauperism.

This is one form of social insurance in which the United States has taken the lead. Even before the impetus given this movement by the Social Security Act of 1935, about forty states had enacted some kind of

mothers' pension law. Since Jan. 1, 1940, the Federal Government has granted subsidies to states equal to half their total expenditures, including administrative expenses as well as actual assistance grants, up to a Federal-state monthly maximum of $18 for the first dependent child and $12 for each additional dependent child under sixteen years or under eighteen years if still in school. In the early 1940's the total number of dependent children receiving such assistance approximated a million a year.

26. Superannuation.—Human waste is expressed not only in industrial accident and occupational disease, in premature death and preventable illness, but also in superannuation. The superannuated are those who are prematurely aged or those who are incapacitated for further work without specific disability. Superannuation may be regarded as the final outcome of chronic fatigue or extreme specialization, rather than the result of an industrial accident or an occupational disease. Victims of superannuation, like those suffering from some incurable defect, have been referred to as the "living dead." Although not senile from longevity, they are too old to work or to play. The superannuated have lost the ability to maintain their former occupations, and they lack the power of adjustment to other occupations.

Superannuation is due, in large part, to the strenuous character of modern industry, to its rapid pace, to dangerous or unhealthy conditions of employment, and to long hours of work at monotonous tasks. Studies of factory workers in numerous large plants have testified to the youthfulness of the employees; in many cases, the average age was found to be about thirty. Although gray hair seems to be common and valuable in the professions, youth is desirable and alertness is necessary in modern manufacturing and mercantile establishments.

27. Old and Middle-aged.—The average age of our population is advancing, owing to the reduction of infant mortality and the conquest of disease. Consequently, the proportion of those of middle age in our population is increasing. If this older group is to be retained in industry, it is necessary that some provision be made for them. In an individualistic economy, a worker could taper off his activities as his years increased and as his strength decreased. But under our factory system of production, such a tapering-off process is impossible or difficult. The employee is forced to maintain his schedule or quit. The immediate results are increased strain and accelerated superannuation; the final result is death or chronic unemployment.

Human conservation involves not only increased longevity or decreased death rate, but also adequate provision for old and middle-aged people, whose number and ratio to the total population have been growing markedly. If industry has no place for the aged or super-

annuated employee, it must provide an adequate program of old-age pensions and contributory insurance. Otherwise the worker is confronted with the possibility of a dependent old age. Instead of the comforts and independence which should surround the closing years of life, the aged employee is faced with the prospect of institutional custody and reliance on public or private charity.

28. Private Pension Systems. *a. Development of Voluntary Plans.*—One of the earliest and most common forms of adjustment (not compensation) on individual initiative was to place the injured or aged employee in an easy or sedentary position. Thus the railroads employed their crippled or aged workmen as flagmen at grade crossings, as watchmen about their yards and warehouses, and as ticket takers at subway stations. But the number of such positions is limited, and the advisability of such a policy is questionable on many grounds. At best, such an adjustment was merely a step toward a comprehensive system of compensation.

One of the first important private pension systems was that established in 1884 by the Baltimore and Ohio Railway. Subsequently other railroads and public-utility companies adopted somewhat similar plans. The movement spread to many large industrial, mercantile, and financial companies. Among the best known pension plans were those of the Pennsylvania Railroad, the Standard Oil Company, the United States Steel Corporation, and the Colorado Fuel and Iron Company.

Some erroneously called "pension systems" required a small but systematic contribution from employees. For the most part, however, they were gratuitous or noncontributory. Enforced retirement was somewhere between sixty and seventy years of age. A prior record of long, continuous, and satisfactory service was generally required for pensions. The amount of the pension usually varied with the length of service in the company and the amount of wages received at retirement. Although usually small in amount, it was often greater than that granted by states having old-age pension laws.

b. Accomplishments and Weaknesses.—The purposes of these private pension systems of large industrial concerns were both humanitarian and selfish, both idealistic and practical. Pension systems made for efficiency, stability, and loyalty among employees. The aged and inefficient worker was removed from an industrial organization in which speed and accuracy were of vital importance. Pension plans also reduced labor turnover and industrial conflict. If workers left and later returned, they were frequently granted claims on the pension system based only on the date of reentry into the service of the company. Again, the likelihood of a strike was reduced, for participation therein generally involved a loss of pension benefits. Indeed, pensioned employees have often been used as a kind of labor reserve for emergencies and sometimes even as strike

breakers. Some excellent pension systems were developed where wages were low and working conditions unsatisfactory. Indeed, some of the most widely advertised pension plans have been those of industrial organizations which have been hostile to organized labor and which maintained the open shop or the company union.

Even if we assume that private pension plans were inspired by the best of motives and that they were operated on broad humanitarian principles, rather than for selfish reasons, private pension plans must be indicted on the grounds of their inadequacy. In spite of the existence of numerous splendid private insurance plans, most of them were not sufficiently inclusive. Many workers were employed by concerns which had no pension system. It was estimated in 1925 that not more than 2.5 per cent of the industrial workers of the United States came under pension systems.[1] Moreover, the age of retirement was often so advanced, and the length of continuous service demanded so great, that only a small portion of this little group was able to participate in the benefits of these plans. Hence it is desirable to have a governmental program with more general coverage and more generous benefits.

29. Governmental Provision for the Aged in European Countries.—Compulsory *old-age insurance* was unknown until *Germany* again took the lead in this form of social insurance in 1889. Employers were required to see that every employee sixteen years of age or over had an old-age card and that stamps covering the required premiums were regularly affixed thereto. The employer bought these stamps from the government and then gave the employee his stamp each week, paying half the cost himself and taking the other half from the employee's wages. The premiums were small and the annuities correspondingly meager. Consequently the government added a subsidy to increase the benefits.

Denmark, in 1891, met the same problem by a national system of gratuitous *old-age pensions*. *Great Britain* also adopted the latter scheme after considerable study. Under the British Old-age Pension Law of 1908, every wage earner of seventy years of age or over, who had lived in the kingdom for the previous twenty years, whose total yearly income from other sources was negligible, and who had been an industrious worker, might receive an old-age pension from the state amounting to a few shillings a week. The British Old-age Pension Act of 1908 was amended in 1911 and 1919 in the interests of wider coverage and greater benefits. Invalidity, as well as old age, was provided for. But the additional burden of providing increased public subsidies for its huge unemployment-insurance scheme proved too great for the public treasury.

[1] EPSTEIN, A., Paper before the American Association for Labor Legislation, December, 1925.

In 1925, Great Britain definitely turned from old-age pensions to old-age insurance.

Before the First World War, many other European countries had provided old-age pensions or insurance or both. Some nations had met this problem by a system of state subsidies to voluntary and cooperative societies. After the war, most of the remaining countries provided old-age and invalidity protection. Most of these postwar laws provided compulsory and contributory old-age insurance, in addition to, or in lieu of, old-age pensions.

30. Old-age Pensions in America.—Old-age pensions or contributory retirement funds were common in the United States, but they were generally administered by private concerns for their own employees. The National Government had compulsory old-age insurance for its employees. The same was true of teachers and other employees of most states. There was, however, no national system of old-age pensions or annuities applicable to all workers before the passage of the Social Security Act of 1935.

The Massachusetts Commission on Old-age Pensions in 1907 reported against the adoption of such legislation by that state. The first law on the subject, passed by Arizona in 1914, was so carelessly drawn that it was declared unconstitutional. The Pennsylvania law of 1923, which was modeled after the British old-age pension law, was held by the courts of that state to be a violation of a provision of its state constitution, which forbade the giving of gratuitous pensions to any individuals except those who had rendered military service.

In the following decade, however, American progress toward state old-age pensions was as rapid as it had been slow in the previous decade. By 1933, seventeen states and Alaska had acts providing financial assistance for the needy aged who were citizens of good character. These laws followed the general outline of the standard bill drawn up by the American Association for Labor Legislation. It provided that a citizen of seventy years of age or more, who has resided continuously for fifteen years within the state, if the value of the applicant's property did not exceed $3,000, should be entitled to a pension which, when added to other income, would not exceed a total of $1 a day.

31. Federal Security for the Aged.—The Social Security Act of 1935, amended 1939, was a comprehensive measure which included old-age benefits, unemployment compensation (to be treated in the following chapter), and subsidies to states providing health programs and giving pensions to the blind and mothers of dependent children. Benefits to the aged were of two types: (1) old-age assistance or gratuitous pensions for immediate relief of the destitute aged; and (2) old-age annuities, contributory and contractual, designed as the long-run solution.

a. Old-age Pensions.—No national program of old-age pensions has been provided. Instead, the Federal Government agreed to match, dollar for dollar, state pensions for "needy, aged individuals" over sixty-five years, up to $15 per person per month. In 1939, the Federal subsidy was raised to a maximum of $20 for those states providing a like amount for old-age assistance. Federal subsidies to states for old-age pensions were further increased by an additional 5 per cent for administrative costs. No special taxes were levied for this purpose by the Federal Government, which has paid these state subsidies out of its general revenue. So effective was this subsidy arrangement that between the time of the passage of the Social Security Act of 1935 and its amendment in 1939, every state in the Union had an old-age pension law in effect.

In 1940, the average monthly old-age pension was between $19 and $20. Great variation existed from state to state; in eight states the monthly pension was over $25, but in another eight states it was under $10. The number of states exceeding the Federal maximum was small, the number below the Federal maximum was large. The proportion of beneficiaries varied as widely from state to state as the amount of the benefit. In two states, half or more of all people over sixty-five years of age were receiving old-age assistance. The total number of recipients of old-age assistance throughout the United States has been close to 2 million; its combined annual cost to the Federal Government and the states has been about a half billion dollars.

b. Old-age Annuities.—Old-age assistance will probably continue as a permanent need for a relatively small group. It is hoped, however, that the long-run solution for the greater portion of old people will be found in contributory and contractual old-age annuities.

The Social Security Act of 1935 founded a Federal old-age insurance system and created the Social Security Board for its administration. A pay-roll tax, to be borne equally by employers and employees, was imposed to provide immediate premiums for ultimate benefits. Beginning in 1937 and continuing for three years (in 1939 extended for three more years) the rate was to be 1 per cent each; from 1943 to 1945, inclusive, it was to be 2 per cent each; from 1946 to 1948, inclusive, it was to be 2½ per cent each; and from 1949 on it was to be 3 per cent each. The employer pays his own share and that of his employees, deducting the latter from their pay envelopes. Both taxes cease on wages in excess of $3,000 a year. In 1942, Congress voted to retain the current 2 per cent (1 per cent each) rate in 1943.

Benefits under this system go to both survivors and bereaved beneficiaries; they include primary benefits to the insured and supplementary benefits for dependents. To qualify for an old-age annuity, the worker must be sixty-five years of age and retired from most work. In addition,

he must have been covered for forty previous, but not necessarily consecutive, calendar quarters; *i.e.*, he must have made substantial contributions to the fund. Special provisions were made to care for those soon to reach sixty-five years of age, to permit them to qualify for old-age annuities and thus to prevent them from seeking old-age assistance.

The size of the old-age benefit depends on the amount of wages received and the length of the earning period. The monthly benefit is figured at 40 per cent of the first $50 of average monthly wage and 10 per cent of the remainder, plus 1 per cent additional for each year of covered employment. This amounts roughly to about half wages.

In addition to this primary benefit, a supplementary benefit of half the primary benefit is added for a wife, also sixty-five years or over, and/or for each child eighteen years or under. Total supplementary benefits may not exceed the primary benefit. The total benefit for one worker may not be more than $85 or less than $10 a month.

If the insured individual dies before reaching the age of sixty-five, survivor's benefits are paid to his dependents. A widow of sixty-five or over or one with a dependent child is entitled to three quarters of the primary benefit. A dependent parent over sixty-five or a dependent child under eighteen is entitled to half the primary benefit of the deceased. If there are no survivors eligible for benefits, a lump sum of six times the primary monthly benefit is paid to the estate.

Summary.—Industrial accidents and occupational diseases constitute a serious source of human waste and a grave menace to human conservation. Superannuation and premature death are other social maladjustments of industry. The national vitality is further impaired by the wide prevalence of general sickness and physical defects not resulting from industrial accidents and occupational diseases. The total economic losses and social costs are enormous. Moreover, the chief incidence of high mortality and morbidity rates is concentrated on particular groups and not diffused evenly throughout all society; it often falls on those economic classes least able to bear them.

The safety and health movements in industry seek to promote human conservation to a maximum and to reduce human wastes to an irreducible minimum. The cooperation of the employee, the employer, and the state is necessary for the realization of this ideal.

Provisions must be made for the victims of modern industry. These include (1) medical and surgical care, (2) educational or rehabilitation work, in order that the injured worker may become economically independent as far as possible, and (3) financial assistance in the form of social insurance. In addition to these remedial measures, preventive measures must be taken to reduce the number of cases by a vigorous attack on causes.

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CHAPTER XII

THE PROBLEM OF UNEMPLOYMENT

QUEST FOR SECURITY

1. Nature of Unemployment.—Unemployment may be defined as idleness of the worker not due to his own incapacity. The *unemployed*, as contrasted with the *unemployable* members of society, are those workers who are capable and desirous of employment but who are unable to secure work because of some maladjustment in the economic order over which they have little or no control. The unemployed are potential economic producers who belong neither in the leisure class of idle rich nor in the social-debtor groups of defectives, delinquents, or dependents.

Irregular employment and underemployment are special phases of unemployment. *Irregular employment* is intermittent employment or lack of steady work. *Underemployment* is insufficient employment to permit the worker to earn wages adequate to maintain a minimum standard of living.

Although the unemployed must be distinguished from the unemployable, there is a tendency of unemployed or irregularly employed workers to drift into the ranks of the unemployable, as steady habits of thrift and industry are gradually broken down. Thus the unemployed worker may be reduced to the level of poverty or, if he becomes a recipient of charity, to the depths of pauperism.

2. Types of Unemployment.—Several different kinds of unemployment may be distinguished one from another by a simple time analysis. They are commonly referred to as casual, seasonal, cyclical, and secular unemployment. Although related to each other and frequently combined, the problem of unemployment is somewhat different in each case.

Casual unemployment represents variations in day-to-day and even hour-to-hour employment. It is peculiarly acute among unskilled workers in those industries which have built up large labor reserves. It is illustrated by the fluctuating demands for the services of dock hands and longshoremen, who are busy when several ships are in port, but idle until another boat arrives. The irregularly employed laborers about the gates of a factory also illustrate this type of unemployment. Casual unemployment occurs in some skilled and semiskilled occupations, as well as among unskilled laborers. For illustration, numerous coal mines have not operated continuously, but only 2, 3, or 4 days a week.

Seasonal unemployment is the month-to-month or quarter-to-quarter variation in employment. It may be due to the seasonal character of production, as, for illustration, in agriculture, lumbering, and construction work, or to the seasonal character of demand, as, for example, in clothing and millinery. Seasonal unemployment in slack seasons, alternated with overtime in busy seasons, is due to the variations in weather, which cause seasonal increases and decreases in the production and consumption of various goods.

Cyclical unemployment is caused by recurrent periods of depression, as the business cycle runs its course. Cyclical unemployment seems to recur at intervals of several years or even a decade. It constitutes a serious challenge to modern capitalism, for it is indicative of the planlessness of our present industrial organization. The minor business depressions of 1920 to 1921 and 1937 to 1938 and the major business depression of 1929 to 1933 afford the most recent illustrations of cyclical unemployment.

In addition to seasonal fluctuations and cyclical variations, there is a long-run or *secular trend.* Between the First and the Second World War, for example, there seems to have been a secular trend toward decreased employment, or rather toward greater irregularity of employment. This recent secular trend of unemployment has been termed *technological unemployment*, because it was explained in terms of the rapid invention of new machinery and the constant introduction of new industrial processes. The early industrial revolution in England was accompanied by a serious condition of unemployment among numerous groups of craftsmen. The new industrial revolution in the United States presented an analogous situation. Although industrial productivity expanded, owing to the increased mechanization of industry, these technological changes created a serious maladjustment or readjustment of industry which expressed itself in unemployment or irregular employment.

In addition to casual, seasonal, cyclical, and secular changes, representing a time analysis from short to long periods, there are also irregular and unpredictable changes known as *random changes.* Illustrations are the adjustments due to famines, floods, and wars. The Second World War, like the First World War, caused industrial rearmament and readjustment, which affected employment, reemployment, and unemployment. International conflicts also necessitate postwar industrial readjustment to the arts of peace; they are apt to be followed by deflation, depression, and unemployment.

3. Amount of Unemployment.—Because of variations in the volume of unemployment throughout different occupations, industries, seasons, and years, it is difficult to make a general or long-run estimate of the average amount of unemployment. The average number of unem-

ployed or the average rate of unemployment is a statistical abstraction, like the average wage or the average length of the working day. The real, current number is sometimes higher and sometimes lower.

It is generally conceded that unemployment, especially casual unemployment, is greater in unskilled than in skilled occupations. Again, the problem is more acute in the winter than in the summer months, when agriculture "takes in a certain amount of the slack." Unemployment also displays itself more intensively in the city than in the country, although the problem, as will soon be pointed out, is agricultural as well as industrial. There is a tendency of unemployed or migratory labor to flock to our cities during the winter months and then to flow out again into the country during the spring and summer. In the meantime, urban demands on charity are taxed to the utmost.

A review of various American estimates of unemployment before the great depression from 1929 to 1933 summarized that an average of at least 1½ million industrial wage earners in the United States were continually unemployed, taking poor and prosperous years together, and that the average worker lost about 10 per cent of his working time through unemployment alone.[1]

4. Unemployment Is Chronic as Well as Acute.—Beveridge's[2] classic study of unemployment concluded that, although the volume of unemployment increased greatly during periods of economic depression and decreased in periods of prosperity, there has been a continuous amount of unemployment throughout all phases of the business cycle. Other studies of unemployment likewise indicate that it is a chronic, as well as an acute, problem.

In spite of popular opinion to the contrary, a period of prosperity does not eliminate unemployment, even though it does reduce its amount. Thus the Committee on Waste of the Federated Engineering Societies found that a million men were out of work during the so-called "wartime prosperity" of 1917 and 1918, when it was commonly supposed that every man could easily get a job if he were so disposed. A decade later, in a peacetime period of prosperity, the chronic problem of unemployment was even more serious. The Labor Bureau, Inc., estimated, in 1928, that 4 million workers were out of employment. The American Federation of Labor officials reported in February, 1928, that the average unemployment in twenty-three leading industrial cities of the United States was over one-sixth of the total number of workers represented by their unions.[3] Other evidence could be cited to show that a serious problem of unemployment existed even before the crash of 1929.

[1] BRADFORD, E. S., "Industrial Unemployment," U.S. Bureau of Labor Statistics, *Bulletin* 310, p. 2.

[2] BEVERIDGE, W. H., "Unemployment: A Problem of Industry."

[3] *American Labor Legislation Review*, March, 1928, p. 65; June, 1928, p. 150.

5. Unemployment Is Agricultural as Well as Industrial.—Chart 41 gives the secular trends of agricultural production, agricultural employment, and farm population from 1899 to 1925. Although farm production in 1924 was almost half again as great as in 1899, farm employment was at the same level, having risen slightly, remained fairly stable, and then declined to its 1899 level. Although the index of farm production rose far above that of farm population, farm employment failed to keep pace even with farm population; it fell far behind farm productions. Hence there was the movement from the farm to the industrial city during the new industrial revolution before 1929. It is evident that agriculture was unable to absorb the displaced workers of manufactures, because there had been taking place an agricultural revolution in the countryside analogous to the industrial revolution in our cities and towns. Unem-

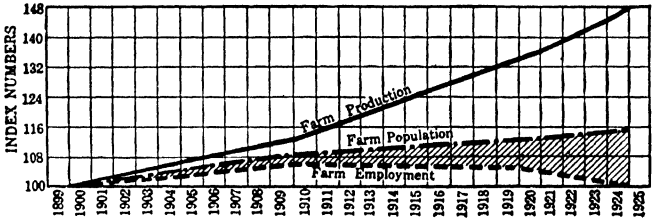


CHART 41.—Agricultural production, farm population, and agricultural employment (1899 to 1925) (Base—level of 1899 = 100 per cent). (*Reproduced from American Labor Legislation Review, March*, 1928.)

Shaded area indicates the excess of farm population over the number needed to operate the farms.

ployment then has been an agricultural, as well as an industrial, problem. Indeed, the lag of the employment index behind the production index has been greater and longer in agriculture than in manufacture.

6. Recent Fluctuations in Volume.—The great business depression from 1929 to 1933 was of unprecedented magnitude in many respects, perhaps chief of which was the enormous and protracted problem of unemployment. The U.S. Census Bureau estimated the number of unemployed in April, 1930, at over 3 million, but it rose in the following three years to several times that figure. On the basis of the 1930 census figures, the amount of unemployment was estimated at about 5 million in the summer of 1931, increasing to 10 million in 1932.[1] This huge total represented about one person out of every five gainfully employed. Other conservative estimates of unemployment during the great depression were even higher, varying from 10 to 15 million.

This huge tide of unemployment receded in the following years of recovery from a crest of 12 million in 1933 to a trough of 6 million in 1937. A short but sharp business recession took place from 1937 to 1938; the volume of unemployment rose seriously and quickly to over

[1] "Recent Social Trends," vol. 1, p. 315.

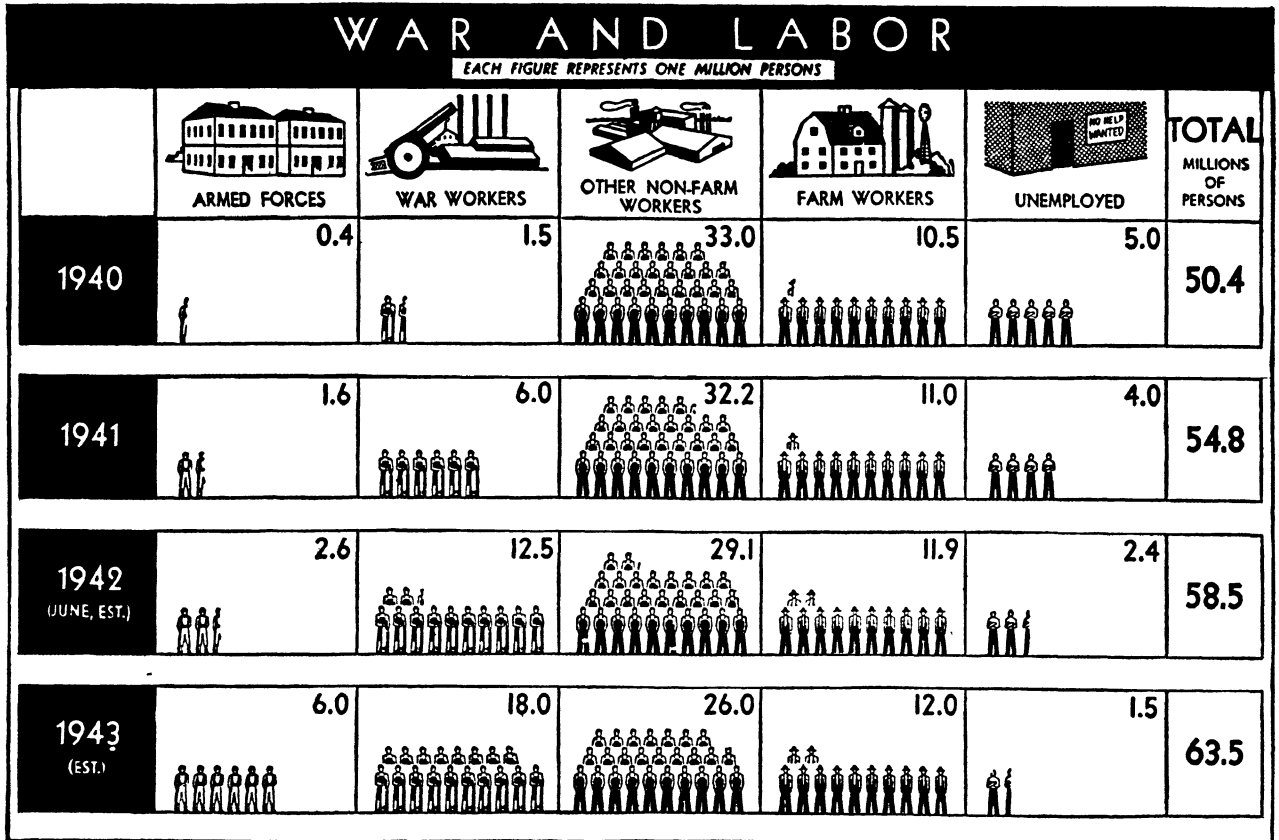


CHART 42.—(*Reproduced by permission of Pick-S.*)

10 million in 1938.[1] It fell slowly in 1939 and rapidly in 1940 with the stimulus given industrial production by the outbreak of the Second World War.

Although fluctuating with various phases of the business cycle and mitigated by reconstruction programs, the United States has been facing a serious unemployment problem. It is chronic as well as acute; it is agricultural as well as industrial. Although in existence before 1929, it assumed larger proportions thereafter. Although obscured by the preparedness boom of the early 1940's, its recurrence after the conclusion of the Second World War can be prevented only by effective and long-range economic planning in advance.

7. Unemployment Is an Economic Maladjustment.—In the long run, the supply of labor and the demand for labor tend to balance. It is true also that the supply of labor constitutes a potential demand for the products of labor. How then can there be a secular trend toward increased unemployment?

To the extent that a worker produces, he is able to consume, provided, however, that his wage is proportionate to his production. Again, an increase in the supply of labor is an increase only in the potential demand for labor and not necessarily in effective demand.

A later section will stress the fact that unemployment is essentially a maladjustment between the supply of labor and the demand for labor. Although temporary and local in its particular aspects, this disequilibrium may be continuous, displaying itself sometimes here and sometimes there, but always somewhere. Moreover, this maladjustment will be intensified if the pace of economic change is quickened.

Changes in methods of production may be so rapid and so frequent that the labor market cannot adjust itself to them promptly and completely. This lag of human adjustment behind technological progress causes a continuous problem of unemployment, which is intensified in such dynamic periods as those of industrial revolutions. Disequilibrium is due to immobility of labor and to lack of fluidity of capital, neither of which can flow easily and promptly from one area or occupation to another.

8. Specialization and Interdependence.—Unemployment is peculiarly a problem of our specialized economic society, resting on division of labor and exchange. Unemployment, in the strict sense of the word, did not exist in a simple economic order where producer and consumer were identical. For illustration, the American pioneer was his own butcher, baker, and candlestick maker. He used his own time at his own discretion for the production of such goods as were necessary to the satisfaction of his own wants. The worker was his own employer and independent of distant markets and general industrial conditions.

[1] National Industrial Conference Board.

The economic forces of supply and demand were crystallized in his own person. Hence there was no social problem of unemployment although individual idleness may have been common.

The frontier has long since disappeared from American life, and thickly settled communities have taken its place. Industrial evolution has resulted in the transition from a simple to a complex, and from an undifferentiated to a highly specialized, economy. Today, few people satisfy directly by their own labor most economic wants. On the contrary, most individuals consume daily the products of thousands of different specialized workers whom they have never seen. Likewise, they limit the scope of their own labor to the production of one economic good or, rather, to one particular phase of its production. This great cooperation of specialists is made possible only by the similar development of a very intricate mechanism of exchange. Regularity of employment now depends on the nicety of adjustment between the consumption and production of countless economic commodities and services, made by innumerable specialists who are unknown to each other.

Division of labor has made possible the production of more goods, cheaper goods, and, perhaps, better goods, but it is fraught with certain grave dangers, one of which is unemployment. As long as this delicate machinery of specialization and exchange works smoothly, all is well; but if friction occurs in some part, the whole mechanism suffers. A Swiss watch is a more accurate timepiece than a sundial, but it is also more fragile.

Planes of living are higher today than before the industrial revolution; the poor man's table has on it comforts from all parts of the world. Nevertheless, this very interdependence of modern economic society makes it a veritable house of cards. Thus a strike among the coal miners of Pennsylvania may force New England textile mills to close, and a drought in Argentina may put London dock hands out of work. We have passed from a local to a national economy; we are now moving painfully from a national to an international economy. Hence American tariffs and German reparations could aggravate the unemployment problem in England after the conclusion of the First World War.

9. Misdirected Production and Overproduction.—There is division of labor over periods of time, as well as among individuals and territories. Modern economic production is not only specialized but also roundabout and capitalistic. Labor was formerly applied directly to natural resources for the production of consumption goods. Today, labor first spends itself on the production of capital, and then, aided by these capital goods, labor turns toward the final production of the desired consumption goods. Capitalistic or roundabout production is far more effective than the direct method, but it is likewise more susceptible of misdirection. In such a case, economic loss results and unemployment ensues.

Between the raw materials of production and the finished consumption goods, many stages interpose. The wool on the sheep's backs may be sheared next year, carded a year hence, woven into cloth still further in the future, and perhaps not be made into suits of clothing for several years. Because capitalistic production is roundabout and time consuming, and because producers must prepare for a prospective future demand rather than for an apparent present desire, production must be carried on in anticipation of demand and not in response to it. This enhances the possibility of error in production, the likelihood of which is further increased by frequent changes in consumers' wants. Because modern production is spread out over a long period of time, the original wants of prospective consumers may change in the meantime. The demand in anticipation of which production has been carried on may vanish.

Although general overproduction is impossible, in the sense that more goods can be produced than can be consumed, it is possible to have misdirected production, *i.e.*, the production of too much of one good and not enough of another good. Moreover, overproduction of a good or of numerous goods is possible in the sense of the making of more than can be sold at a profit above costs of production. The results of misdirected production or of a fall in prices below their former costs of production are business stagnation or an interruption of production, with their disturbing effects on employment, through the rude jarring of the delicate equilibrium between the demand for and the supply of labor.

10. Economic Disequilibrium.—As previously observed, labor creates its own demand for its own products. In the final analysis, producers are consumers and consumers are producers. It is true that in the long run the demand for and the supply of labor must balance. This economic principle, however, like any other scientific law, states merely a general tendency. There are numerous opposing forces and disturbing influences, for modern industrial society is dynamic and not static, complex and not simple; production is roundabout and not direct. At any given time or place, there may not be perfect balance between the demand and supply forces of labor. Hence there exist unbalanced industries, unbalanced localities, and unbalanced periods. Thus the maladjustment of unemployment will continue to display itself, now here and now there, but always somewhere. It may be temporary, local, or particular, *i.e.*, affecting only a given time, a given industry, or a given group of workers, but for society in general the maladjustment is continuous and widespread.

Liability to unemployment, then, is inherent in our dynamic, specialized, and capitalistic economy, in which production is carried on by

private enterprise and individual initiative. It is a plague which affects only a free and progressive society. A slave civilization had "unemployment" only among its leisure class. Again, a regimented society can adjust its labor supply to the demands of the state through shifting its labor battalions to whatever project the party in power favors; a labor surplus can be mobilized in its standing army. Capitalism, however, has automatic and impersonal control in the form of the price system, even though that does not function perfectly and immediately; therefore maladjustments exist and unemployment continues. Hence there is a growing interest in economic planning and a decreasing resistance to political controls.

11. Illustration of Industrial Maladjustment.—The bituminous-coal industry has been characterized by an economic maladjustment productive of unemployment, irregular employment, and chronic underemployment. It illustrates the problems of casual unemployment, seasonal unemployment, cyclical unemployment, and technological unemployment.

The First World War created an overexpansion in the soft-coal fields as in numerous other industries, such as iron and steel. This overexpansion in the bituminous-coal industry, however, was far older than the war. Again, little indication of readjustment was manifest in the decade following the First World War, despite the fact that it was featured by the increased use of gasoline and fuel oil and by the further development of hydroelectric projects. The fever of overexpansion and the lameness of readjustment seemed to be chronic ailments, from which the coal industry, before the reconstruction legislation of 1933, showed only slight chance of recovery on its own initiative. It was revived by the rearmament program and the scarcity of fuel oil during the Second World War; it may suffer a postwar relapse and not achieve permanent recuperation.

12. Changes in Methods of Production.—Revolutionary changes in methods of manufacture took place in England during the first industrial revolution. The crude spinning jenny of Hargreaves, for illustration, enabled one person to spin as much as twenty or thirty people could have done in the same length of time on the old-fashioned spinning wheel. Consequently, its immediate effect was to put many hand workers out of employment. The long-run effect of the introduction of power machinery in the textile industry, however, was that more workers were engaged in manufacture in the English factories after these great mechanical inventions than had formerly been employed in their own homes under the domestic system of manufacturing goods by hand.

The development of the railroads put canal men out of their former jobs, but it created employment for a much larger group within the

transportation industry. The automobile likewise displaced the horse and buggy, but it replaced small occupations with much larger ones and likewise increased employment.

Mechanical invention has been continuous and rapid during the past century. New machinery and improved processes have, temporarily at least, put some workers out of employment at their former occupations. The tremendous adjustment in the labor market necessitated by new machinery can be illustrated by the following two inventions. The McKay sewing machine attaches the soles of a hundred pairs of shoes in 1½ hours, as compared with 100 hours of time previously spent under the former method of cobbling shoes by hand; thus, one man can now do the work which formerly required more than sixty men. The still more recently invented Owen glass-bottle machine can produce 15,000 bottles per day with a total of four men, each working on a shift of 6 hours, whereas a single glass blower could formerly make only 200 bottles in one shift; one man can now do the work which formerly required almost twenty men.

It is contended that the unemployment resulting from the introduction of such machines is merely temporary and that the discharged workers eventually find employment in other fields. Each new invention reduces the cost of production and, hence, lowers the price of the article produced. Therefore, it tends to leave more purchasing power in the hands of consumers with which to buy other products or more of the same product. Thus the ultimate and total demand for labor is not reduced; displaced workers eventually find reemployment. The process of adjustment may be painful to the group of workers affected, but it is only temporary or local.

The invention of power machinery and the introduction of new processes, however, work a severe hardship on the skilled worker who has spent years in learning his trade and who is later forced to seek a new occupation. If too old or otherwise incapable of making the necessary adjustment, he may suffer permanent loss of employment or be forced to accept the lower wages of a less remunerative employment. But the greater economic well-being of society in general is more important than the special interests of any particular group. English operators of hand looms and American makers of buggy whips had to give way before improvements in manufacture and transportation.

The vested-interests argument may be applied to labor as well as to capital. It has been suggested that a displaced worker be compensated by society for the financial loss to him of the introduction of machinery. Although such a suggestion seems fanciful, employers will do well to consider the effects of the introduction of a new machine on their workers' morale.

Organized labor, at first, was hostile to the introduction of machinery, but recently it has attempted to face the inevitable and to secure the best possible compromise. A happy solution was found in the printing trade after the invention of the linotype machine. Employers agreed to use for its operation only printers formerly engaged in setting type by hand, provided they would learn to use the new method. Skill at hand composition was of some value in the operation of the new linotype machine. Although the immediate effect of this invention was to force some of the former printers out of employment, the reduced cost of publishing increased the volume of printing. The net result was that more men were employed after the invention of the linotype machine than formerly, even within the printing industry itself.

13. Changes in Wants of Consumers.—Fashion has been a fickle mistress, for her whims have changed frequently and suddenly. The furniture of one period, for example, has been supplanted by that of another; wooden beds gave way to brass beds, which were later supplanted again by wooden beds. Long dresses similarly gave way to short dresses, only to be replaced again by long dresses. Long hair was bobbed, only to be grown long again. Cloth-topped shoes once replaced leather-topped shoes; high shoes for winter wear gave way, in turn, to low shoes with woolen hosiery or cloth spats. The red flannels of our grandmothers have been banished by the dainty lingerie of the modern girl. Linen fabric was supplanted by cotton, cotton by silk, and silk by rayon; recently, cotton has again become the vogue.

Changes in fashion are social in character, but they have tremendous economic effects. Inasmuch as production must be carried on in anticipation of demand, rather than in response to demand, sudden and unforeseen changes in the wants of consumers cause misdirected production. Although many consumers are unaware of them, their economic wastes and their social costs are tremendous. In some shops, there are unemployed workers, idle machinery, and unused materials, while in other establishments overtime is resorted to and new materials are rushed to supply the latest craze of the public.

Greater stability of consumption, permitting increased standardization of production, would be accompanied by an enormous reduction of waste, which the consumer could enjoy in the form of more goods, better goods, and cheaper goods. The employer would benefit by decreased uncertainties of business and by reduced obsolescence of equipment. The workers would enjoy greater security from the alternating menaces of unemployment and overwork.

14. Seasonal Occupations. *a. Importance.*—Professor Beveridge stressed seasonal unemployment as one of the most important phases of unemployment. He discovered that in the building trades there was

80 per cent more unemployment in the slack month of December than in the busy month of August; in the manufacture of furnishings three and a half times more unemployment in the slack month of January than in the busy month of April; among machinists about 50 per cent more unemployment in the slack month of December than in the busy month of May; and among printers twice as much unemployment in the slack month of August as during the busy month of November.[1]

b. Causes.—Seasonal unemployment is due to periodic variations within the year in the demand for labor of a given type, resulting from seasonal conditions of production or consumption. Thus wheat must be harvested and vegetables canned in the summer or early autumn. Winter is favorable for lumbering but not for building.

Consumers' wants likewise are subject to variations with changes of season. The clothing and millinery industries, for example, have fall and spring seasons, owing to changes in costume corresponding to changes in weather; the intervening summer and winter months are relatively slack seasons. Again, social customs, such as Christmas giving and Easter parading, cause seasonal stimulation. Christmas holidays are preceded by busy seasons but followed by slack seasons in mercantile establishments; extra help is taken on during the rush season, only to be dismissed afterward.

c. Stabilization of Employment.—Numerous shops have attempted to stabilize their business by special sales at reduced prices during slack months. Such bargain sales also permit them to dispose of the past season's goods instead of assuming the expense and hazard of carrying them over to the next season.

Where the seasonal character of an industry is due to the effects of alternating weather conditions on production, rather than on consumption, stabilization of employment is more difficult. Thus the production of ice was necessarily a winter industry before natural ice was supplanted by artificial ice. Lumbering still remains chiefly a winter industry, where logs are sledged down to the mills or rivers. The harvesting of grain and other crops is an autumn industry in countries within the north temperate zone. Great canneries employing thousands of workers can operate only in the summer and autumn months when fruits and vegetables ripen. Construction work and the building trades flourish in the spring, summer, and autumn, but they languish in the cold winter months when frost, snow, and sleet make outdoor work difficult.

d. Dovetailing Seasonal Industries.—The dovetailing of seasonal industries tends to reduce their disturbing effects on regularity of employment. For example, the common combination of coal and ice dealers has been beneficial, for the employer could maintain a year-round force

[1] BEVERIDGE, W. H., "Unemployment: A Problem of Industry," p. 29.

of workers, most of whom could deliver ice in summer and coal in winter. It is obvious, however, that there are limitations to such dovetailing of industries. It is difficult where occupations are unrelated or where they call for different skills. Printers cannot become carpenters or machinists in order to balance the seasonal character of these industries. Even if such mobility of labor could be secured, it would not completely solve the problem, because the total demand for all workers appears to be greater in some months than in others. Finally, the dovetailing of industries requires more and better economic planning than has yet been achieved. Although fuller use of its limited potentialities could reduce seasonal unemployment, the present tendency is for each industry to build up its own labor reserve, which is employed in busy seasons but idle in slack seasons.

15. Business Cycles.—Unemployment due to a general business depression must be distinguished from that due to seasonal variations in particular industries. Here we are face to face with the great economic problem of the business cycle. Without reviewing its various theories and causes let us recall how a period of business prosperity tends to culminate in a crisis, which is succeeded by a business depression, followed, in turn, by recovery, which gradually develops into another period of prosperity, and so on again.

The great human tragedy of business depressions is unemployment. Thousands of idle workers tramp the streets vainly in search of employment. The economic toll of depressions is waste. When large numbers of workers are thrown out of their former jobs, there is a serious loss of wages, which means not only misery to the unemployed and their families, but also a reduction of purchasing power within the community. This decrease in effective demand depresses production, accentuates the business depression, and creates still more unemployment.

Illustrations of cyclical depressions, causing a decrease in employment, are those of 1892 to 1893, 1904 to 1905, 1913 to 1914, 1920 to 1921, 1929 to 1933, and 1937 to 1938. The depression of 1929 to 1933, discussed in a preceding section, increased unemployment to unprecedented proportions. A review of past depressions, recurring with revolutions of the business cycle, suggests a pessimistic conclusion to an unhappy period of so-called "war prosperity."

16. Industrial Conflicts.—Broad economic factors play an important part in shaping the policies of both labor and management. Industrial conflicts are avoided by employers in periods of prosperity but faced more resolutely by them in periods of depression when a strike or lockout may merely obviate the necessity of a general layoff. Hence it is difficult to say to what extent, if at all, industrial conflicts staged during periods of industrial depression swell the net amount of unemployment.

The New York Board of Mediation and Arbitration estimated that the number of man-days lost by all wage earners because of strikes and lockouts was less than 1 per cent of the total number of man-days lost from work through all causes. Studies of unemployment among the organized workers of Massachusetts and New York also seemed to agree that only 1 or 2 per cent of the total volume of unemployment might be attributed to strikes. Hence the effects of industrial disputes on production and employment, bad though they were, may not have been so serious as was commonly supposed. Nevertheless, the growth of labor organizations after 1933 was followed by an increase in strikes which reached a climax in the business recession of 1937–1938; production was crippled and employment curtailed.

17. Changes in Tariffs and International Trade.—The tariff has been said by its devotees to create employment, although it really substitutes one type of employment for another. Critics have replied that the tariff creates an expansion in a given industry and an excess production in certain lines, which helps to bring on an economic crisis, followed by a period of depression and unemployment. The truth is to be found in neither extreme. Unemployment is caused not so much by a tariff or the absence of a tariff as by the frequent industrial readjustments caused by repeated changes in the tariff.

Anything which has a disturbing influence on trade and commerce will upset the delicate equilibrium which has been built up between the demand for and the supply of labor. Modern specialization and exchange are no longer local or even national; they are international. Any new dam in the usual channels of international trade is apt to create, temporarily at least, unemployment in some part of the world.

The delicate mechanism of territorial specialization and the smooth flow of world trade are as difficult to restore as they are easy to disrupt. The First World War was a tragic illustration. The financial collapse of Germany meant the loss of important markets for exports from other countries. In the years which followed that great conflict, Britain struggled with a grave unemployment problem. Allied nations became less enthusiastic about the payment of German reparations when it became apparent that a depression in certain home industries might result. The Second World War covered even wider areas, affected more commodities, influenced still more peoples, and disturbed even more seriously the usual channels of international trade. Postwar reconstruction presents a colossal task and a dismal prospect of unemployment.

18. Incidence of Unemployment.—The causes of unemployment, like those of poverty, may be divided into objective or environmental causes and into subjective or personal causes. These two groups are not mutually exclusive; they are merely different ways of analyzing the

same set of factors. Individual causes do not create the economic problem of unemployment, but they do determine its social incidence, *i.e.*, which individuals will be unemployed when unemployment strikes their group.

Individual contributory causes of unemployment include intemperance, crime, indolence, disease, degeneracy, old age, and various physical, mental, or moral defects. These factors, however, need not be stressed here, for they are more relevant in a causal analysis of the unemployable group than of the unemployed group.

19. Costs of Unemployment. *a. Burden on Labor.*—Although unemployment is costly to employers and to society in general, its chief burden rests on labor. To the worker, unemployment means loss of wages and temporarily or permanently lowered planes of living. As his meager savings are soon exhausted, the man out of work faces the unpleasant alternatives of starvation or charity.

Unemployment has a depressing psychological effect on the discharged worker. Irregular employment makes difficult the formation of steady habits of thrift and industry. It is easy to drift with the current into the great river of casual and migratory laborers. The unemployed or irregularly employed worker may eventually float out into the vast sea of poverty and pauperism. The change from a casual or migratory laborer into a tramp, a delinquent, or a dependent is as easy as his transformation into a steady and industrious worker is difficult.

Unemployment affects employed, as well as unemployed, workers. Discharged laborers naturally seek employment in other occupations, where the increased competition for jobs tends to lower wages. Individuals out of employment will often work for less than they formerly received and for less than other workers in those jobs to which they aspire.

b. Burden on Industry.—Unemployment is costly to the employer as well as to the employee. Although the employer may have a greater financial reserve than his employee, a closed factory pays no dividends. Overhead charges, such as interest on idle capital, soon eat up past earnings. Moreover, the laying off of workers tends to disrupt an industrial organization; its general efficiency is impaired when increased output again becomes necessary.

c. Burden on Society.—The economic costs of unemployment to society in general are equally important. Unemployment creates more unemployment. The majority of consumers are wage earners, and unemployment reduces their purchasing power. Consequently, their effective demand for various economic goods declines and production falls off proportionally. This, in turn, creates more unemployment, and the vicious circle is complete.

The social costs of unemployment may be read in the rates of poverty and crime. Unemployment is a cause, as well as a result, of dependency and delinquency. A period of industrial depression, with consequent loss of employment, will increase greatly the demands on public charity; there is also apt to be an increase in crimes against property.

Unemployment breeds discontent, radicalism, and a spirit of unrest. Idle men who are willing to work but unable to find employment are easy converts to revolutionary doctrines and disorderly actions. On the other hand, regularity of employment at a living wage is the best practical argument among laborers in defense of the *status quo* of modern industrialism.

20. Labor Reserve. *a. Nature.*—The result of chronic unemployment is the existence in industrial society of what is known as the "labor reserve." It consists of those workers whose employment is irregular. It constitutes a great human reservoir of labor on which the industry can draw when necessary.

The labor reserve is made up chiefly of those workers whose services are not continuously required but who do find employment from time to time. It includes chiefly, but by no means exclusively, unskilled and semiskilled workers. The labor reserve extends across the twilight zone between the unemployed and the unemployable. At any given time, the employer selects only the most likely workers from among the total number of applicants around the factory gates; those in excess of his immediate needs remain idle in the great labor reserve.

b. Size.—The smallness of the labor reserve is a rough measure of the ability of industrial society to use effectively its human resources. The size of the labor reserve depends not only on the irregularity of employment within an industry, but also on the lack of cooperation between employers. The immobility of workers likewise tends to swell these "stagnant pools of labor," the total number and size of which are further increased by the tendency of each employer to develop his own labor reserve instead of one for the whole industry or for the entire locality.

If the volume of business varies from day to day or from week to week, the number of workers inside and outside the factory gates tends to equal the total number employed during the busiest period. Beveridge was the first student to describe this tendency of the labor reserve of any particular industry to grow but not to shrink with temporary economic changes. He contended that the total number of workers congregating about a particular labor market tends to equal the maximum number for whom it is possible to find employment there.

c. Features and Factors.—One of the most unfortunate features of our present industrial system is this tendency of each business organization and of each community to build up its own labor reserve. It serves

to make the bargaining position of the employer easy by offering him a continuous and adequate labor reserve from which to select his employees. But, from a broad social point of view, such a system is wasteful of our greatest human resource, the labor of men and women.

Foreign labor has been an important contributing factor to this situation, for unskilled immigrants have been used to recruit the labor reserves of various industries. A Federal law has forbidden the importation of foreign contract labor, and there has been no concerted national effort to adjust the great tide of foreign labor to the demand for it. The unskilled immigrant labor group has been especially immobile and peculiarly susceptible of industrial exploitation.

d. Reduction of Labor Reserves.—The reduction of the labor reserve can be done only by an improvement in the labor market. Associations of fruit growers have developed bureaus of information, marketing associations, and better shipping facilities to distribute more intelligently their perishable material products. Human labor is nonmaterial, but it is equally perishable and even more valuable. Nevertheless, its marketing has been less efficient than that of many commodities. At any given time, there may be an excessive supply of labor of a particular type in one locality and simultaneously an excessive demand for it somewhere else.

The First and Second World Wars created sudden and serious problems of adjustment in the labor market. New national defense industries were created; some old industries were stimulated, but others were depressed. The output of some occupations was increased; that of other occupations was curtailed. Some relocation of population was necessitated by the readjustment of industry to and after the war. Meanwhile labor reserves were drained by industry and replenished by youths, women, and the partially employable.

21. Migratory Labor.—Migratory labor is another serious problem of modern economic life. It has been estimated that there are several million American workers not definitely attached to any specific industry or to any particular locality. Moreover, the number of migratory laborers has probably been increasing, not only absolutely, but also relatively.

The chief cause of migratory labor is to be found in the seasonal character of numerous industries. Thus workers released from agricultural pursuits in the autumn flock from the country into industrial towns and cities. Again, the great army of men who harvest our wheat crop are forced to move from the south to the north as the crop ripens. In the winter months, many of them go still farther north into the forests around the Great Lakes, where they engage in lumbering. In the spring months, these casual workers may find employment in construction work.

An extreme illustration of migratory labor is the passage of Italian laborers to and from Argentina. As the climatic seasons are reversed in the north and south temperate zones, the crop ripens in opposite months of the year and the same group of workers can harvest both crops within one year.

The effects of migratory labor on the individual are somewhat similar to those of irregular employment. Indeed, migratory labor is apt to be irregularly employed. It is easy to migrate without definite employment and eventually to yield to the temptation of becoming a tramp or a member of the floating leisure class. Seasonal trades invite shiftlessness and a lack of responsibility. The worker can hardly transport his family with him as he goes from place to place in search of work. It is impossible to maintain a wholesome family life, and it is easy to sink into the group of petty criminals.

22. Reduction of Unemployment.—The first step toward the solution or amelioration of a problem is the securing of adequate and accurate knowledge instead of relying on current misinformation. We have seen, for example, that, despite popular opinion to the contrary, unemployment is a chronic, as well as an acute, problem of industry. Efficient labor exchanges therefore are necessary not only to help adjust the labor supply to the labor demand and to administer unemployment relief programs, but also to keep records of unemployment and of unemployed individuals.

Again, any social problem, such as unemployment, requires alike the reduction of causes and the relief of cases. A sound system of unemployment compensation will not only care for the unemployed but it will also reduce the amount of unemployment.

Philanthropy merely affords temporary assistance, and charity is a poor substitute for a job. Public work is more expensive than public relief but it maintains the independence of the individuals aided thereby. It also stimulates the employment of other individuals in related industries.

23. Economic Measures.—Our brief survey of the chief causes of unemployment suggests measures for its elimination or reduction. Meanwhile, assistance must be given individuals out of work. Care of cases must be continued while an analysis of causes is pursued and an attack against them is prosecuted.

a. Stabilization of Demand.—The reduction of sudden changes of fashion would eliminate some of the irregularities in industry which result in overtime, on the one hand, and unemployment, on the other. Popular education of both men and women on this subject would do considerable good. Anything which helps to stabilize and to standardize demand helps to reduce unemployment.

In general, the demand for necessities is more stable than the demand for luxuries. Hence the old slogan of "necessities for all, before luxuries for a few" has a corollary on unemployment. Economic production in accordance with this social maxim, however, will remain only an ideal so long as glaring inequalities in income exist. Effective demand, it will be remembered, requires purchasing power as well as potential desire.

The growth of large business combinations and the decline of fierce competition tend to reduce fluctuations in the demand for labor. Monopoly price has, at least, the advantage of being relatively more stable than competitive price. Moreover, with an expansion of the business unit, opportunities to dovetail different industries are increased.

b. Stabilization of Production.—The seasonal aspect of many industries is impossible to eliminate, as it is determined not only by our economy, but also by physiography. Nevertheless, much can be done toward devetailing seasonal occupations and toward increasing the mobility of labor. Although such remedies may reduce unemployment, they may simultaneously intensify the migratory character of this labor, as illustrated by farming in summer and autumn, lumbering in winter, and construction work in the spring.

Irregularity of employment in many industries can be reduced by manufacturing for stock, *i.e.*, in anticipation of demand. Such a procedure involves a hazard on the part of the producer, because it intensifies the risk due to possible changes in the wants of consumers. It is safer for the employer to pass on a portion of this risk to his employees in the form of overtime in rush seasons and unemployment during slack seasons. Much could be done, however, by mutual agreement of manufacturers on a standardization of styles sufficiently far in advance. In the case of staple articles it is possible to manufacture for stock far more than is done at present. By offering special discounts to preseason purchasers, the risks and financial outlays of dealers might be reduced.

c. Economic Changes and Business Cycles.—The invention of machinery and other technological changes will probably continue in the future as they have in the past. Indeed, economic progress is apt to be accelerated. A dynamic society will always face a constant problem of adjustment. It is desirable, however, that future technological advances be accompanied by increased social control over industry. It is also hoped that these adjustments will be directed toward greater social welfare and not merely toward higher profits. The human scrap heap of industry cannot be viewed with the same complacency in the future as it has been in the past.

The reduction of employment due to a general business depression brings us face to face with the problem of the business cycle. This transcends the individual business unit and even the industry as a whole.

It involves national and even international problems, such as those of money, credit, banking, and price levels. Without reviewing these, it may be said that any economic reform, such as the stabilized dollar, for illustration, which tends to mitigate business depressions tends thereby to reduce unemployment.

d. Economic Planning.—It is costly to permit industry to function without comprehensive planning. The First and Second World Wars revealed how a national economic program could improve labor markets and reduce the wastes of competition. The world-wide depression of 1929 to 1933 was a tragic illustration of industrial anarchy and economic drifting. Socialists and other critics of modern capitalism point to the waste and planlessness of economic production on individual initiative and under the lure of private profits. The Russian Gosplan, on the contrary, attempted to organize the entire economic system of that country in order to minimize waste and to maximize efficiency. Capitalistic countries will do well to promote national bureaus of economics, committees of engineers, and industrial councils to consider the reduction of unemployment and other forms of economic waste by improved methods of industrial planning. In short, the reduction of unemployment requires more and better economic planning for an individual business unit, for the industry as a whole, for the nation itself, and for the entire world.

24. Educational Measures.—Educational, as well as economic, reforms are necessary. It is costly to have children and young people in blind-alley jobs instead of school. Although vocational education has captured our public-school system, many educators prefer a general industrial or commercial education to highly technical schools and courses. It may be that specialization has been carried to an unwarranted and undesirable extreme. There is as great a dearth of the general all-round mechanic as of the bedside physician. It is hoped that the education of tomorrow, both within school and within industry, will increase not only the skill but also the adaptability and mobility of our future wage earners. This will enable them to shift more readily from one occupation to another under the stress of unemployment. It has been suggested that an individual learn two allied trades instead of one specialized occupation. Guidance work done through experienced counselors is pointing toward these objectives; it is seeking to bridge the gap between the school and industry.

25. Employment Agencies.—The organization of the labor market has been less efficient than the organization of produce markets. Employment agencies represent an attempt toward an intelligent organization of the labor market. They cannot create work, but they can bring together the jobless man and the manless job. They can reduce the fruitless

wandering of men out of work. Employment agencies can help adjust the supply of labor to the demand for it.

a. Types.—Employment agencies are of two general types, public and private. Public agencies, in turn, may be classified as Federal, state, or local labor exchanges.

Private employment agencies are of various types. There are fee-charging agencies which are conducted for profit like any other business. There are also philanthropic associations which do not charge a fee and which are not influenced by the profits motive. In the last place, there are employment agencies maintained by associations of employers and those conducted by labor organizations.

As the last two groups of agencies are somewhat partisan, they are apt to be viewed with suspicion by the opposite sides; this feeling hinders their effectiveness as employment agencies. Private nonprofit employment agencies are generally limited in their sphere of usefulness; they are more concerned with rehabilitating unemployables than with placing the unemployed in good jobs. As many of them are under the direction of charitable societies, both employer and employee are prone to feel that they are trying to find jobs for less efficient workers.

b. Defects and Abuses.—Employment agencies in this country were, at first, instituted on individual initiative, rather than undertaken as a legitimate public function. There are still several thousand private profit-making employment agencies in the United States. Although probably better than none at all, they are far from satisfactory. Some maintain fairly high ethical standards and perform useful social functions, but with many others the reverse is the case. Although there are many reputable and satisfactory private agencies, the majority of them are dominated more by the search for profits than by the desire to serve a great economic need.

Fraudulent and extortionate practices have been common, as all studies of private employment agencies indicate. Vacancies sometimes have been encouraged as a potential source of fees. Misrepresenting terms and splitting fees with plant officials have been frequent. When employers ordered men from several agencies at the same time, they often attracted crowds of workers far in excess of their local demands. Although such a situation permitted management to exercise a wide selection and to beat down wages, the result was often tragic to the workers. It was the conclusion of the Commission on Industrial Relations that the private-employment-agency "business as a whole reeks with fraud, extortion, and flagrant abuses of every kind."

c. Regulation of Practices.—The majority of states now have some sort of legislation on the subject of private employment bureaus, the worst practices of which have generally been eliminated. State statutes

on this subject frequently forbid misrepresenting facts, falsifying records, enticing women into immoral resorts, splitting fees with employers or foremen, sending applicants to fictitious jobs or, indeed, to any employment without a written order from the prospective employer, charging fees without rendering employment services, and numerous other past practices of a bad or questionable sort.

The state of Washington legislated in 1914 by popular vote to eliminate the private fee-charging employment agency. This law, however, was declared unconstitutional by the Supreme Court in 1917 as a violation of the guaranty of freedom of contract implicit in the Fourteenth Amendment. This decision did not destroy the power of a state or the Federal Government to regulate the practices of private employment agencies, nor did it impair the right of any governmental unit to develop or to maintain its own free public employment bureau in competition with existing private agencies. It merely forbade an exclusive state employment agency and the complete elimination of private agencies.

26. Public Labor Exchanges. *a. Europe.*—The first European nation to develop a comprehensive system of labor exchanges was Great Britain. The Labour Exchanges Act of 1909 authorized the Board of Trade to do this, but in 1917 the Ministry of Labour assumed charge of the system. Administrative divisions were established and labor exchanges were located in all important communities. The local offices function through advisory committees consisting of representatives of employers, employees, and the general public. Close communication is maintained with the central office in London. The administrative machinery of British labor exchanges is thoroughly correlated with that of unemployment insurance.

Public employment bureaus were established by other European countries. Indeed, the movement has progressed further in Europe than in the United States because unemployment compensation laws were passed by many foreign nations before the United States took such action. The labor exchanges of European countries, particularly those of Great Britain and Germany, served as models for many American states.

b. American States and Cities.—The first free state employment bureau in America was established by Ohio in 1890. Before the First World War, about half the states maintained public employment bureaus, some of which were fairly successful.

The Social Security Act of 1935, as we shall see, impelled all states to enact unemployment compensation laws. The effective administration of unemployment compensation required the establishment or expansion of public labor exchanges for the performance of the allied functions of paying compensation to insured workers, adjusting claims for benefits, and seeking jobs for unemployed workers.

Some American cities experimented with free public employment bureaus, but insufficient appropriations, political influences, and the opposition of private interests militated against their success. Considerable progress, however, has recently been made toward coordination of activities and reduction of duplication. Local labor exchanges now cooperate effectively with those of other cities and with their own and other state bureaus of employment.

c. U.S. Employment Service.—The Federal Government also has been active in this field. The movement was begun in 1907 with an attempt on the part of the Bureau of Immigration to place some of our immigrants upon farms instead of permitting them to crowd into congested cities. But for the next ten years comparatively little was accomplished. In 1915, however, this service was extended to all classes of labor and to all occupations.

The First World War showed the necessity for the conservation and mobilization of our labor resources. In 1918, the Federal Secretary of Labor reorganized the U.S. Employment Service. An effort was made to coordinate state, county, and municipal bureaus under this Federal agency. Advisory boards of employees, employers, and public officials were created. Federation without centralization was attempted through this national organization. The advantages of coordination were sought through the cooperation of local organizations. Considerable autonomy was regarded as highly desirable in attempts to reduce unemployment.

The Wagner-Peyser Act of 1933 authorized Federal grants to states for the establishment and maintenance of public employment offices, the costs of which are shared jointly by the state concerned and the Federal Government. All these state agencies were thus coordinated through the U.S. Employment Service.

27. Public Employment. *a. Purpose.*—The alleviation of unemployment by utilizing the unemployed on public works is an old economic device. It was tried shortly after the revolution of 1848 in France. This experiment was widely heralded as an application of the public-workshops idea of the socialist Louis Blanc. As a matter of fact, it was merely an attempt to meet an unemployment crisis by keeping busy on public construction those who would otherwise have been idle in the streets of Paris.

Public employment during periods of industrial depression not only gives jobs to those out of work, but also has a stimulating influence on other industries. To employ men on the construction of roads and buildings is to create a demand for stone, cement, and structural steel. Its indirect influence in creating employment in allied private industries is as great as its direct influence. Society is the gainer, not only because of the lessened demands on charity, but also because of the economic savings resulting from having the work done in periods of low prices.

b. Limitations.—Public employment should supplement and not supplant the demands of private business. In other words, public work is to be created or increased when business is slack and to be deferred or decreased when business is brisk. Such coordination of public and private employment requires the substitution of comprehensive and advance planning for hasty efforts to devise any kind of job.

In the long run, public employment does not create additional work but merely substitutes the state for the private employer. But in the short run, when there is a "lump" of unemployed labor, public work can create employment. It should be regarded, however, as the stabilizer and not the generator of employment. It should be viewed as a reservoir stored up for emergencies, and not as the primary source of supply.

Public work may prime the pump, but the ultimate demand for labor comes from the stream of purchasing power flowing from the springs of production. Money has purchasing power and expresses purchasing power, but production, not money, is the cause of purchasing power. Hence the "cheap-money" fallacy is an even more impotent panacea for unemployment than the "first-aid" remedy of making work by public employment.

Most governments follow the example of private business instead of reversing the general trend. They expand in periods of prosperity when tax receipts are high and retrench in periods of depression when taxpayers feel poor. The result is an accentuation instead of a moderation of the business cycle. The enormous amount of public construction is revealed in our huge Federal and state budgets and in the total bond issues of American cities. Although some public improvements are needed immediately, many could be deferred to periods of depression.

Another mistake of the past has been the failure to plan ahead for municipal, state, and Federal projects. If better planning of public works were done, the unemployed might be put to work more constructively. As a rule, American cities have not had their future developments planned in advance. Like Topsy, they have just grown. It is not surprising, therefore, that employment on public work has not been efficiently done, although it has alleviated temporary distress.

c. American Experience with Public Work.—During the business recession of 1908, several American cities experimented with public work as a means of alleviating unemployment. The same year the Socialists wrote this principle into their party platform. The state of Idaho likewise pioneered in its law of 1915, which required county commissioners to provide emergency employment on public highways or elsewhere. In 1921, California passed a law which provided for the extension of its public works during periods of acute unemployment caused by industrial depressions. A similar law was enacted by Wisconsin in 1923.

The great depression of 1929 to 1933 renewed interest in public work as an emergency measure, preferable to direct relief of the unemployed. The Roosevelt recovery program created the Public Works Administration, succeeded by the Works Progress Administration. For more immediate and particular needs, the Civil Works Administration and the U.S. Housing Authority were organized. The Civilian Conservation Corps sought not only to reclaim land but also to rehabilitate men through a wholesome program of public work.

The success or failure of these hastily created bodies must be evaluated in terms of an emergency program. Looking back over the period, the student can see the many mistakes which were made and the huge funds which were wasted. When the depression descended upon us, the country was unprepared; there was a lack of prosperity reserves and of comprehensive plans for future development. Many large cities had already borrowed up to their legal limits in a previous orgy of spending; some were financially and politically bankrupt. The nation as a whole had to formulate hasty plans and a new political philosophy; unprecedented spending, borrowing, and taxing were necessitated by the emergency.

28. Guaranteed Work and Dismissal Wage.—One method of protecting the worker against the ravages of unemployment is to guarantee him a minimum number of days' work throughout the year. Considerable progress in this respect has been made in the clothing industry, which has suffered seriously from seasonal unemployment. Such stabilization of employment, however, has been dependent on the strength of organized labor in the needle trades and on the policy of manufacturing clothing in large factories. It has been menaced in sweatshop and homework by unorganized, underpaid, and irregularly employed workers. Trade agreements stipulating a specific number of days' employment have been made by some highly unionized needleworkers with certain large manufacturers of clothing. Factories making ready-to-wear garments have been forced to manufacture for stock to a greater extent than formerly. These guaranties were often secured by an unemployment-insurance fund, contributed to jointly by employers and employees in the covered industry.

The soap-manufacturing company of Procter and Gamble took a long step forward when it promised its workers 48 weeks of employment throughout the year. Such a policy, it was believed, could be followed by many other manufacturers of necessities for which the market demand is fairly stable. Similar attempts at stabilizing employment were made by the Hormel meat-packing concern and the Endicott-Johnson shoe manufacturers. The Dennison Manufacturing Company, maker of paper boxes, stationery supplies, holiday cards, tags, and various paper

goods, attempted a comparable program in an even more difficult industry, characterized by irregular, seasonal, and changing demands. Before the great depression, this firm maintained the policy of paying temporarily to those workers who were laid off a share of their regular wages out of an unemployment fund, built up out of previously accumulated shares of the profits of the business. The efficient, as well as humane, management of this firm was remarkably successful in stabilizing production and reducing unemployment.

Some firms ameliorated the hardships of unemployment by paying a "dismissal wage." If an employee was discharged through no fault of his own, but merely because of lack of work, he received an unemployment bonus at the time of his enforced separation from the services of his employer. In order to pay adequate dismissal wages, a business organization must regularize employment in all years and accumulate in good years an unemployment reserve fund. The strain of unemployment generally comes in a period of business depression, when the firm is taxed by a serious loss of profits and by heavy fixed charges on idle equipment.

Schemes of guaranteed work and dismissal wages, like plans of unemployment reserves within industry, were developed during and after the First World War. Many were shattered by the great economic depression from 1929 to 1933, which was so severe and so protracted that the meager financial reserves set aside in previous years of prosperity were inadequate. Consequently, most private and voluntary plans of unemployment insurance collapsed in the great crisis, during which they were so sorely needed.

29. Private Unemployment Insurance.—One of the most comprehensive programs of private unemployment insurance, that of the General Electric Company, emerged in 1930 during the great depression. It permitted workers to elect or to reject entrance into the scheme. Insured workers were required to contribute 1 per cent of their weekly wages, except when these should fall below half their average full-time earnings. In cases of emergency, the 1 per cent contribution might be taken off all wages and salaries, whether the individuals were insured or not. Employee contributions were to be matched dollar for dollar by the company. The benefits of this plan of unemployment insurance were designed to compensate only temporary layoffs. Those permanently discharged, either for cause or by a reduction of production, were not included. After a 2 weeks' waiting period, beneficiaries temporarily out of work were to receive 50 per cent of their full-time earnings, not to exceed $20 a week or to extend beyond 10 weeks. The limitations, as well as the benefits, of this plan are apparent. The depression had produced a trend toward practicability by reducing coverage and

imposing restrictions, in order to preserve the solvency of private unemployment-insurance reserves.

The depression of 1929 to 1933 demonstrated the necessity of additional protection in the form of compulsory unemployment reserves built up through public unemployment insurance. The limitations and failures of numerous private schemes demonstrated the desirability of a stronger, more general, and more permanent program, involving governmental supervision and assistance. Such a program was provided in the Federal Social Security Act of 1935, other features of which were described in preceding chapters. Its provisions relating to unemployment compensation will be treated in the concluding sections of this chapter, following a brief discussion of the advantages and disadvantages of unemployment compensation in general and a short review of practical experience with it in those countries where it existed before the United States inaugurated a similar program.

30. Advantages and Disadvantages of Unemployment Insurance.—Unemployment insurance is hard to administer because of the ease of simulating unemployment. It is difficult to feign an industrial accident or old age, but it is easy to pretend to be an industrious workman out of a job because of circumstances beyond one's own control. It is further contended that unemployment insurance will increase, rather than decrease, the amount of unemployment. If men are paid only when at work, they will shun idleness; but if they are paid when out of work, they will be relieved of the necessity of looking for another job and many will remain in idleness. Bitter opponents of unemployment insurance have stigmatized it as a "dole system" and as "Caesar's bread," *i.e.*, as analogous to the free distribution of grain to Roman citizens which encouraged the indolence and dissipation of the proletariat of that ancient metropolis.

The friends of unemployment insurance reply that the amount which is paid to an unemployed worker is less than his regular wage and that it is not sufficient to relieve him of the necessity of looking for work. Moreover, unemployment insurance is carefully correlated with public labor exchanges. Those who are receiving unemployment insurance are listed at the public labor exchange and are offered work when it can be found. Refusal to accept such work means loss of unemployment compensation. Finally, unemployment insurance cannot be regarded as a dole or charity, or even as a pension system, if the employee, when at work, pays a premium each week out of his wages for unemployment insurance.

31. Aims of Unemployment Compensation.—The aims of any insurance program are twofold—compensation and prevention. It will be remembered that unemployment in its strict sense refers to enforced

idleness due to objective causes in the industrial system. Consequently, unemployment insurance attempts to alleviate the sufferings of workers due to circumstances beyond their control. Any scheme of unemployment compensation accomplishes this objective. But scientific unemployment insurance tends to reduce unemployment, as well as to compensate the unemployed. It tends to lessen unemployment just as workmen's compensation tends to reduce industrial accidents. This second aim of unemployment insurance, however, will be accomplished only if the system is carefully planned. If improperly administered, it fails in this important objective; it may increase rather than decrease unemployment.

32. Types of Unemployment Compensation.—Unemployment insurance must be distinguished from a dole. The latter consists of gratuitous contributions to individuals out of work, whereas the former is contractual and contributory.

Scientific unemployment insurance implies the existence of an actuarial basis for the computation of risks, as well as adequate financial reserves for the payment of benefits. The premium which is charged depends not only on the wages paid, but also on the risk of unemployment in a particular occupation. Hence there is a financial incentive to employers to stabilize employment.

If no attempt were made to assess premiums in proportion to the dangers of different occupations, workmen's compensation laws would not have succeeded in reducing industrial accidents. So-called "unemployment insurance" has sometimes been paid for by a flat pay-roll tax instead of by premiums which differentiate between regular and irregular employment, thus penalizing instable industries and rewarding stable industries.

Unemployment compensation may be paid out of individual reserves built up by separate firms or by pooled reserves for industry in general. Individual reserves are weaker than pooled reserves, but they permit greater flexibility and their premiums are more easily adjusted to experience ratings.

33. Ghent System.—Although no nation had attempted unemployment insurance before the passage of the British National Insurance Act of 1911, several European cities had done so. Perhaps the most famous plan was that of the Belgian city of Ghent.

The most unusual feature of the Ghent system of unemployment compensation was that it was administered by trade unions. Indeed, this form of public unemployment insurance was a municipal subsidy to trade-union unemployment benefits. This municipal subsidy was defended because it substituted insurance for charity and relieved the pressure on social agencies during economic depressions. Sharing with

unions the support of the unemployed was cheaper for the city than assuming that entire burden. Finally, the administration of unemployment insurance by the local unions, which contributed substantially to the fund, lessened its abuses by their individual members.

34. British Unemployment Insurance. *a. Early Experience.*—Great Britain was the pioneer country in direct national unemployment insurance. The Poor Law Commission of 1909 recommended that Great Britain follow the example of Continental countries in nationalizing the Ghent system. But it was evident that trade-union unemployment funds, even though government subsidized, would not be adequate; nor would they afford relief to the unemployed who were not members of unions. Consequently, a national system of direct unemployment compensation was substituted.

The National Insurance Act of 1911 provided unemployment compensation in certain industries; its coverage was limited to about 2 million wage earners. Employers were required to insist that all employees coming under the provisions of the new law have both unemployment cards and sickness cards. Half the cost of the weekly stamps affixed to an unemployment card was borne by the employer and the other half was deducted from his employees' wages. Benefits and premiums were small; the time limit was restricted; compensation was cleared through the previously established labor exchanges to secure coordination and to prevent abuse. It was hoped that public unemployment insurance would stimulate and supplement, not eliminate or reduce, unemployment benefits by trade unions and other private organizations.

During the first decade of its existence the British system of unemployment compensation was financially sound. Its coverage was limited and its benefits were restricted. Modest premiums were sufficient to build up adequate reserves. Most important of all, employment was fairly stable, and the strain of unemployment compensation was slight. After the First World War, however, the entire situation changed. Depression succeeded prosperity as foreign trade fell off and the export industries languished. Unemployment increased, the coverage of the old law was extended; its benefits were increased and its financial supports were weakened.

b. Effects of War.—At the conclusion of the war, two out-of-work donations were made by the British Government to take care of the temporary problems of demobilization and industrial readjustment. One was the granting of a free policy of unemployment insurance to each returned soldier. Although this measure, popular at the time, received later criticism, it was better than a soldier bonus. The other British out-of-work donation to civilians, directed especially at those formerly employed in war industries, was less justifiable and even more

confusing. Its administration was so difficult and its effects were so disastrous that it was repealed the following year. Nevertheless, these temporary indiscretions were sufficient to affix the term "dole" to the entire unemployment-insurance scheme of Great Britain, which had been operating successfully and conservatively on a pay-as-you-go basis for the preceding decade.

These temporary postwar measures were replaced in 1920 by a comprehensive unemployment-insurance law, which extended the system to the entire industrial population. The general plan of the original act of 1911 was followed, but premiums and benefits were increased because of higher costs of living. Additional amendments were made in 1924, 1927, and 1930, seeking to eliminate certain abuses which had crept into the system. Eligibility was restricted by requiring proof of the payment of thirty weekly contributions in the previous two years as a prerequisite to the payment of out-of-work benefits. Evidence was required that the individual had earnestly sought employment and that he belonged in the unemployed, rather than the unemployable, group.

In the period following the First World War, acute unemployment in Great Britain became chronic. The number of individuals receiving out-of-work benefits continued in the millions. Moreover, the coverage of the original law, as just stated, had been extended. Although premiums had increased, payments increased disproportionately. Consequently, the insurance fund, which previously had been actuarially sound and financially solvent, was slowly undermined. Government subsidies were added, and emergency loans were made by the national treasury to the insurance fund until, by the summer of 1931, its indebtedness thereto was over £82 million, a sum far greater than its capacity to repay.

c. Later Changes.—The insolvency of the national insurance fund was one of many factors which contributed to Great Britain's departure from the gold standard in 1931. Drastic economies were made by the Labour Government, then in power, in a strenuous though belated effort to balance the national budget. Weekly premiums of each of the three contributors to the unemployment-insurance fund, the employee, the employer, and the state, were increased by several pence per person per week. On the other hand, unemployment benefits were reduced about 10 per cent. Certain abuses were eliminated, such as the cases of married women who had formerly held positions and who continued to receive out-of-work benefits.

A distinction was drawn between occasional and permanent unemployment by the provision that an unemployed individual might receive his benefit only to a maximum of 26 weeks in the year, after which he was to be drafted out of the insurance fund into a new class known as the

"transitional," whose future benefits were to be paid by the state as public assistance. In other words, an attempt was made to distinguish acute from chronic unemployment, the unemployed from the unemployable, and contractual or contributory unemployment insurance from gratuitous poor relief. Over a million individuals, who had had no work in the six months following the passage of the new act, passed out of the benefits of unemployment insurance and into the transitional class, to be cared for by public relief.

35. Appraisal of British Experience with Unemployment Insurance.—British unemployment insurance received considerable criticism at home and abroad. Labor leaders contended that its benefits were inadequate and sought to achieve increases or to prevent decreases in them. On the other hand, manufacturers and employers contended that the differential between unemployment benefits and market wages, particularly the wages of unskilled labor, was not sufficient to induce men to work. They felt that existing laws increased, rather than decreased, unemployment by so raising costs of production that competition with other nations was difficult.

The British system drew little distinction among various occupations; it made slight attempt to base unemployment premiums on unemployment risks. The heavy burden of unemployment insurance was not placed on the irregular trades, which were chiefly the languishing export industries, because such absorption of their proper share of the huge cost of unemployment insurance would have raised their costs of production to a prohibitively high level in a highly competitive foreign market.

The extension of unemployment insurance in Great Britain was due to a postwar industrial depression. Unemployment figures were in the millions and there was serious fear of social revolution. Something had to be done immediately for the enormous number of individuals out of work. Consequently, the coverage of the British unemployment system was suddenly extended from 2 or 3 million to 10 or 12 million. This emergency measure became, in modified form, a permanent measure, as the acute unemployment problem became chronic.

In spite of some mistakes in policy and certain errors in administration, the British system of unemployment insurance did perform valuable social services. An enormous amount of human suffering was prevented and workers' planes of living were maintained. But the financial cost, especially to the British manufacturer, taxpayer, and general consumer, was enormous.

Critics of British unemployment insurance point out that a new generation has grown up since the First World War, thousands of whom have been continuously idle ever since leaving school. Unfortunately, this allegation is true; but it must be regarded, not as the result of British

unemployment insurance, but as the result of a chronic problem of unemployment.

The outbreak of the Second World War in 1939 provided a tragic solution to the British problem of unemployment. Recent industrial readjustment has been similar to that of the preceding generation. Men were called to the colors and women volunteered for service. The industries of war supplanted and supplemented those of peace. Civilian populations, however, participated more immediately in the Second than in the First World War. Air raids necessitated tremendous work for protection and rehabilitation at home and for the spread of similar devastation to enemy lands abroad.

Industrial readjustments after the war will be as serious as industrial readjustment to the war. Whether Britain's unemployment problem will be as acute and as chronic after the Second World War as it was after the First World War remains to be seen. It is to be hoped that previous experience with unemployment compensation will be found helpful and that former mistakes can be avoided.

36. Unemployment Insurance in Other Countries.—The British experiment in national unemployment insurance stood alone for almost a decade, but in the postwar years several other countries emulated her example. Beginning with Italy in 1919, the following European countries passed compulsory unemployment insurance laws: Austria in 1920, Russia in 1922, Poland in 1924, Bulgaria in 1925, and Germany in 1927. Queensland, Australia, in 1922, was one of the first non-European states to follow the example of the mother country.

Other European countries, including France, Belgium, Denmark, and Norway, had voluntary unemployment-insurance programs of limited scope even before the First World War. In the postwar period, this partial step was taken also by Czechoslovakia, Finland, the Netherlands, and most cantons of Switzerland.

The most important Continental experience with unemployment insurance was that of *Germany*, which followed the British example in this form of social insurance, as it had been followed by Great Britain in sickness insurance. The Compulsory Insurance Act of 1927 provided for the complete nationalization of public labor exchanges. Its benefits were extended to nearly all manual laborers and to most nonmanual workers of modest earnings. Profiting by British experience, however, the German law of 1927 excluded from unemployment insurance "casuals," *i.e.*, those workers whose employment lasted not more than 26 weeks a year. The care of this group of unemployable, partially employable, or chronically unemployed people was regarded as a problem of public relief and not as a responsibility of the unemployment-insurance fund, whose benefits were to be limited to the better class of workmen,

who were able and willing to make substantial contributions to it in the form of fairly regular weekly premiums. Again, the German law of 1927 restricted the time of unemployment insurance to 26 weeks in any year, after which no more benefits were to be paid until after the completion of another qualifying period of 26 weeks of premium payments.

37. American Experiments with Unemployment Reserves. *a. Unions and Employers.*—The first kind of unemployment insurance in the United States, as in Europe, was the out-of-work benefit paid by trade unions, but in America this program neither developed widely nor received governmental subsidy. Some employers, often through company unions, also initiated programs of unemployment benefits. The Rochester plan, one of the best and largest, involved the cooperation of numerous employers in diversified industries within the same community.

b. Wisconsin Pioneer Law.—The first American law for compulsory unemployment reserves and compensation was passed by Wisconsin in 1932. It required contributions only from employers, instead of joint contributions from employers and employees; it was subsidized by the state. The American plan implied the specific responsibility of management to provide either steady work or compensation for unemployment. It penalized irregular industries but rewarded those providing steady employment. The Wisconsin law permitted each company to build up its own unemployment reserve, with liability limited to its own workers, in contrast to the European system of pooling unemployment premiums in a common fund. This newer plan was designed to stimulate the employer's individual initiative in regularizing employment in every possible way.

The framers of the Wisconsin law had a background of British experience with unemployment compensation. They also had a background of experience, both at home and abroad, with workmen's compensation laws. They sought to devise a system that would decrease unemployment, as well as compensate the unemployed. Desirable though this aim is, such a policy is difficult to carry out. Although it may be fair and desirable to load the costs of casual and even seasonal unemployment upon the backs of individual employers, should not society as a whole, rather than management alone, shoulder the costs of cyclical and technological unemployment?

38. Federal Social Security Act. *a. Background.*—The great depression of 1929 to 1933 aroused the United States to a realization that industrial security was a paramount necessity. With the number of unemployed between 12 and 13 million, many felt that, if jobs were impossible and relief were denied, violence might take place. America, previously indifferent to or critical of British unemployment insurance,

now began to feel that it might be preferable to revolution. The United States as a whole was prepared to follow the trail of compulsory unemployment insurance blazed by the state of Wisconsin in its pioneer act of 1932. Consequently, the Social Security Act of 1935, discussed in part in the preceding chapter, contained provisions for unemployment compensation, as well as for old-age and survivors' insurance.

b. Pay-roll Tax on Industry.—The Federal Social Security Act of 1935 imposed a pay-roll tax on all industries engaged in interstate commerce and employing eight or more workers during 20 or more weeks of the year. Most large industries were affected because intrastate manufacturers were obliged to engage in interstate commerce to secure raw materials and to market goods. Small manufacturers and farmers escaped this tax, which amounted to 1 per cent of the wages paid in 1936, to 2 per cent in 1937, and to 3 per cent in 1938 and the following years. Except for a one-tenth deduction for administration costs, this pay-roll tax on most employers was to be deposited in the Unemployment Trust Fund of the United States Treasury to the credit of the state from which it was collected. This fund might be drawn against by any particular state for the payment of unemployment compensation to the workers of that state, provided it had an unemployment compensation law approved by the Federal Social Security Board. In order to recover funds so raised within their own borders, all the states in the Union promptly passed unemployment compensation laws. In 1940, unemployment compensation, available in every state, made benefit payments to over 5,000,000 persons in the amount of more than $500,000,000.

There is no Federal system of unemployment compensation similar to the Federal system of old-age and survivors' insurance. The pay-roll tax is a compelling force and approval by the Federal Social Security Board is a standardizing influence which secures certain minimum requirements. Nevertheless, there are as many unemployment compensation laws as there are states. Some states supplement the unemployment tax on employers by one on employees, but most states do not. Some permit individual reserves, but most states pool reserves. Some permit exemptions or deductions because of a favorable experience rating for stabilizing employment, but most states do not.

c. Eligibility and Benefits.—In order to secure unemployment benefits, an individual must have been working on a job covered by the state law and must have previously received substantial wage payments. The amount of pay required to establish eligibility is stated usually as so many times the amount of weekly benefit. The weekly benefit is generally half pay, with a minimum of $5 and a maximum of $15 a week. The payments continue until the worker resumes his old employment or secures another job. There is a time limit, however, after which such

payments cease, even though reemployment may not be secured. This time limit varies from state to state, but it is commonly fixed at 16 weeks. To secure unemployment compensation, the jobless worker must register for work at his local public employment office at the same time that he files his claim there for compensation. There is generally a waiting period to stimulate efforts at reemployment and to eliminate the bookkeeping details of day-to-day casual unemployment.

A worker may not be denied unemployment compensation benefits because he refuses to accept a job where labor disputes or labor standards are involved. In case benefits are denied he has the right to an impartial hearing of his case.

During the short but sharp business recession from 1937 to 1938 unemployment compensation proved of help to individuals and of value to society. The armament program before and after America's entrance upon the Second World War reduced the amount of unemployment and the claims for compensation; meanwhile financial reserves were accumulated. The real test of our system of unemployment compensation will come in the period of industrial readjustment following the war.

Summary.—Unemployment is enforced idleness of workers due to no fault of their own but to objective causes in the economic organization. The unemployed are to be distinguished from the unemployable. Irregular employment and underemployment are special phases of the general unemployment problem. Various types of unemployment have been classified as casual, seasonal, cyclical, and technological or secular unemployment.

Unemployment is chronic, as well as acute. Although varying in intensity from time to time, the problem of unemployment has been continuous. The development of mechanization has been accompanied by decreasing regularity of employment.

Although unemployment is expensive to employers and to society in general, its chief burden falls on labor. The baneful effects of unemployment on workers are both financial and psychological.

Unemployment is due primarily to imperfect adjustment in the demand for and the supply of labor. It arises from the complexity of modern industrial society, which is characterized by extreme specialization, extensive use of machinery, and roundabout or capitalistic production. Specific causes of unemployment are changes in methods of production, shifts in wants of consumers, seasonal occupations, the business cycle, industrial conflicts, and changes in international trade and the tariff.

The labor reserve is a human reservoir from which industry draws its workers when needed. Unfortunately, each industry, locality, and business organization tends to build up its own labor reserve. Modern

economic society is characterized not only by large bodies of irregularly employed workers in numerous labor reserves, but also by great armies of migratory labor. The seasonal nature of many occupations and the changing character of industry as a whole contribute to migratory labor.

There are many ways in which unemployment can be reduced on individual initiative and by private enterprise. Greater standardization of goods and increased stabilization of demand will help materially. Manufacture for stock in anticipation of demand will then be possible; stabilization of employment will follow. The dovetailing of seasonal industries, wherever possible, will help to reduce unemployment. In brief, scientific management of industry and comprehensive planning of production are the employer's chief contributions to the stabilization of employment.

There are several ways by which the state can reduce unemployment and care for the unemployed. Public labor exchanges help to organize the labor market by bringing together the jobless man and the manless job. The greater and better utilization of public work will also reduce unemployment; this should be curtailed in periods of prosperity and expanded in periods of depression, not undertaken indiscriminately in any phase of the business cycle without careful and advance planning. Finally, there is unemployment compensation.

Unemployment insurance is neither a pension nor a dole; it is contractual and may be contributory. Compulsory in character and extensive in coverage, unemployment insurance must be supervised by the state; it may be administered and subsidized by the state. Scientific insurance is on an actuarial basis; *i.e.*, premiums are proportionate to degree of risk, and irregular trades must pay higher rates or stabilize employment. It also requires adequate financial reserves to provide for emergencies.

Great Britain has had more extensive experience with unemployment insurance than any other great nation; it was in existence there before the First World War and expanded thereafter. Wisconsin, in 1932, was the first and only American state voluntarily to provide mandatory unemployment compensation. The United States, in 1935, passed the Social Security Act, which levied a pay-roll tax on employers. In order to secure the refund of this tax collected within their own borders, all our states promptly passed unemployment-compensation laws, which differ from state to state.

Questions for Discussion

1. *a.* Define unemployment.
   b. Distinguish between the unemployed and the unemployable.
2. *a.* Explain what is meant by the incidence of unemployment.
   b. What relationship, if any, does it have to the volume of unemployment?

3. Differentiate between unemployment as an acute problem and unemployment as a chronic problem.

4. Outline social costs of unemployment to the parties concerned.

5. Explain unemployment as a maladjustment in the demand for and the supply of labor.

6. *a.* Outline specific causes of unemployment in our economic system.
   b. Suggest concrete remedies in each case.

7. *a.* What is a labor reserve? Why is it necessary?
   b. How can labor reserves be reduced?

8. *a.* Cite reasons for and dangers of migratory labor.
   b. Suggest remedies.

9. *a.* Do public works make or stabilize employment? Explain.
   b. How can this device be used more effectively?

10. *a.* What are some advantages of public labor bureaus?
    b. Give some disadvantages and dangers.

11. *a.* Outline essentials of scientific unemployment insurance.
    b. Contrast with doles and pensions.

12. *a.* Do you regard the experience of Great Britain with unemployment insurance as favorable or unfavorable? Why?
    b. What lessons can the United States learn from her experience?

13. In the long run, has unemployment been increasing in the United States? If so, how much and why? If not, how do you explain the constancy of employment?

14. *a.* Show the effect of the business cycle on unemployment.
    b. Show the effect of war on employment.

Topics for Investigation

1. Exhaustion of free land and the problem of unemployment.
2. Unemployment and the business cycle.
3. Dovetailing seasonal industries.
4. Machinery and unemployment.
5. Unemployment and changing fashions.
6. Reduction of labor reserves.
7. Labor exchanges in Europe.
8. Public employment bureaus in the United States.
9. Unemployment and organized charity.
10. Louis Blanc and public workshops in France.
11. Unemployment problem in Great Britain.
12. Unemployment compensation on the continent of Europe.
13. Wisconsin's pioneer law for unemployment compensation.
14. Unemployment-compensation law of your own state.
15. Similarities and differences in laws of various states on unemployment compensation.

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PART FOUR

COLLECTIVE BARGAINING AND LABOR ORGANIZATIONS

Chapter XIII. Development of Labor Organization, *Achievement of Legal Right of Collective Bargaining.*

Chapter XIV. Labor Organizations and Employers' Associations, *Present Industrial Alignment.*

Chapter XV. Aims and Policies of Unions, *Economic Basis of Collective Bargaining.*

Chapter XVI. Labor Disputes and Weapons of Collective Bargaining, *Problems of Industrial Conflict.*

Chapter XVII. Industrial Conciliation and Arbitration, *Programs of Industrial Peace.*

CHAPTER XIII

DEVELOPMENT OF LABOR ORGANIZATIONS

ACHIEVEMENT OF LEGAL RIGHT OF COLLECTIVE BARGAINING

1. Ancient Exploitation and Class Struggle.—The oppression of workers has existed throughout the ages; it has assumed many different forms. Karl Marx, the German socialist, attempted to outline its evolution through the three following stages: (1) slavery, (2) serfdom, and (3) wage slavery.

Under slavery there was no problem of wages, because the person of the slave, as well as his services, was the property of his master. Serfdom represented a slight improvement over slavery, for the serf was legally attached to the soil and could not be sold off the estate of his lord. Both conditions represented status, a condition fixed by birth.

Slavery is older than civilization. The cultured classes of Greece and Rome lived in leisure by the exploitation of the ignorant masses. During the Middle Ages, the vast slave system of the Roman Empire gradually changed to the selfdom of the feudal period. But the amelioration of the workers was slight; the laboring masses continued to be oppressed by the ruthless military classes.

Class struggle, like the exploitation of labor which engendered it, is older than capitalism and the wage system. Slave insurrections and civil wars between plebeians and patricians shook the Roman Republic to its foundations. During the Peasants' Revolt of the medieval period, the ideal of social and economic equality found expression in the old song

> When Adam delved and Eve span,
> Who was then the gentleman?

The modern answer to these medieval aspirations was expressed in the slogan of the French Revolution, "liberty, equality, and fraternity." Echoes of ancient class struggle reverberated during the American Civil War in the militant lines of the "Battle Hymn of the Republic."

2. Modern Changes.—The dawn of the modern era saw the expansion of commerce and the crystallization of capitalism. As currency came into common usage, medieval payments in labor and produce gave way to money rents and money wages. The rise of capitalism hastened the decline of serfdom and the disintegration of the manorial system. Serfs gradually became free peasants and artisans, who could move about in an effort to improve their lot. Nevertheless, the vestiges of serfdom lingered

in Western Europe until the French Revolution. The liberation of the serfs in Russia and the emancipation of the slaves in America did not take place until the middle of the nineteenth century.

The industrial revolution caused by the invention of power machinery marked the advent of a recent phase of capitalism, which has been termed "industrialism." Political control shifted from the old landed aristocracy to the new capitalist class of manufacturers. The workers, who had lost ownership of the instruments of production, were exploited by these new industrial despots, who rose to power and rode to affluence under the factory system.

Modern workers in manufacturing cities began to demand relief from new industrial maladjustments, just as their forefathers had revolted against agricultural exploitation in the days of Spartacus and John Ball. A different class consciousness developed trade unions and other forms of labor organization; modern strikes replaced ancient slave insurrections and medieval peasant revolts. The old problem of class struggle now expressed itself in a conflict between capitalists and wage earners, between machine owners called the "*bourgeoisie*" and machine operators called the "proletariat," rather than between the enslaved and the free, the military and the industrial, or the landed and the landless groups.

3. From Status to Freedom of Contract.—Status, let us repeat, is a condition determined by birth, as, for example, slavery and serfdom. It may be illustrated also by a caste system, which has been defined as "division of labor gone to seed." Freedom of contract, on the other hand, implies social and economic liberty, as well as civil and political rights. Contract involves freedom of choice to accept or to reject conditions of employment. An individual possesses the legal right to bargain as to wages, hours, and general working conditions; he enjoys freedom to move about from one employment to another in search of better prospects.

Labor's transition from status to freedom of contract was accomplished during the emergence of capitalism and the development of the wage system. The evolution from serfdom to free peasantry was an important feature of the transition from a subsistence economy to an exchange economy. Monetary rents, instead of payments in kind and in service, were made for the use of land; cash wages were paid to labor.

The growth of towns also was associated with the rise of capitalism and the transition from status to contract. A runaway serf who left his agricultural manor often fled to a town and became an artisan. If he lived for a year and a day in a free city, he became a free man. The medieval doctrine was "city air makes free." Medieval towns have been termed "little islands of freedom in a sea of despotism." They were also commercial and intellectual centers in an agricultural and provincial world.

4. From Master-and-servant Relationships to Those of Employer and Employee.—Freedom of contract, which was gradually achieved by the workers, slowly found its way into the law of the land. At first, it was implied in the common law; still later, it was expressed in written statutes. But the early legal view of the relations between the two contracting parties was that of master and servant. The present legal concept of employer and employee is rather recent, as viewed in the long perspective of history. Even today, labor law still affords some survivals of the earlier master-and-servant relationship, which have been carried over from the former era of status enforced by centuries of tradition.

The master-and-servant relationship was not strange under the guild system, when an apprentice boy was expected to serve his master while he learned his trade. Nor was it so bad under the domestic system, when the family was the economic unit and while industrial relationships still were personal. But with the factory system and the impersonality of modern economic life, such a legal concept became both antiquated and unjust.

At present, the labor movement is going through another period of transition, as important as that from status to freedom of contract or from master-and-servant relationships to those of employer and employee. It may be expressed as a transition from individual to collective bargaining or from industrial paternalism to industrial democracy.

5. General Trends.—The general evolution of labor may be summarized in the following outline, which includes the first two obvious stages listed by Marx but not his third obnoxious stage, which is stigmatized, rather than described, by his use of the prejudicial term "wage slavery."

EVOLUTION OF LABOR

1. Status (social)—fixed by birth or conquest:
    a. Slavery (ancient).
    b. Serfdom (medieval).
2. Freedom of Contract (political)—guaranteed by law; or Wage System (economic)—influenced by unequal conditions:
    a. Master-and-servant relationships (early modern times).
    b. Employer and employee relationships (later modern times).
3. Collective Bargaining—negotiated by groups of nearly equal power:
    a. Industrial democracy succeeds industrial autocracy as political democracy earlier succeeded political autocracy (present); legalization of collective bargaining.
    b. Collective bargaining develops responsibility as it achieves recognition (future).

6. Nature and Types of Collective Bargaining.—The term "collective bargaining" is as indefinite as are the terms "wage system" and "freedom of contract." In its broadest sense, collective bargaining may be defined as group instead of individual competition and as agreements between organized associations rather than isolated individuals. The more pleasant term "collective negotiation" is now being substituted for the older expression "collective bargaining."

Specific practices of collective bargaining will be treated later in Chaps. XV and XVI. A case can be made for or against each of them. Some are desirable but others are undesirable. Some are necessary to secure or to maintain collective bargaining but others are not. Hence it is desirable to appraise every weapon of collective bargaining separately, as well as in relation to each other and to collective bargaining in general. The basic principle has become accepted and written into law, but particular forms of collective bargaining are debatable.

Finally, the term "collective bargaining" may be used in its political and social settings. Even the economic aspects of collective bargaining transcend mere industrial disputes. Obviously, collective bargaining can be used both by employers and by employees.

7. Origins of Collective Bargaining.—Although collective bargaining has been given new forms and an added importance by the changes of the industrial revolution, it antedates modern industrialism. Indeed, collective bargaining is as old as, or even older than, capitalism and the wage system. It may be traced as far back as the medieval charters which the townsmen received from their local dukes or distant kings; these were essentially collective contracts containing certain privileges and specific exemptions from feudal obligations. Medieval guildsmen also practiced collective bargaining and had mutual understandings with their fellow members as to quality of goods, prices, output, and general working conditions.

8. Medieval Guilds and Modern Trade Unions.—Interesting comparisons can be drawn between medieval craft guilds and modern trade unions as associations for collective bargaining. Essential differences, however, lay in the former absence of power machinery, the factory system, and large-scale production. In an age of craftsmanship and production by hand tools, an apprentice expected to become a journeyman, and a journeyman had the practical possibility of becoming a master workman. Considerable skill but only a moderate amount of capital were necessary. Moreover, master and apprentice worked side by side in the same shop. Industrial relations were personal and even parental. These differences in fundamental conditions must be remembered in comparing the collective negotiation of medieval craft guilds with that of modern trade unions.

9. Business Organizations Gain National Favor and Limited Liability. The transition period from medieval to modern times witnessed the rise of commerce and the growth of foreign markets. Nationalism succeeded feudalism, and imperialism ended provincialism. Mercantilism was in the ascendancy and colonial empires were in the making. Kings and queens granted royal favors to soldiers of fortune and merchant princes. National charters were later issued to trading companies for their distant enterprises. Great companies, such as the British East India Company, replaced trading guilds and merchant adventurers. Many of the new companies possessed monopoly privileges from the very beginning.

As the principle of limited liability developed, the modern business corporation took on its present form. Special charters were granted to banks, turnpike and canal companies, and, later, railroads. Although the power of collective action expanded with the formation of modern industrial corporations, the right of free association and even special privileges continued to be granted to these business organizations. Governmental hostility toward the collective action of capitalists was not expressed nearly so promptly or so vigorously as toward the collective action of workers. Indeed, governments often condoned many of the monopolistic practices of early groups of capitalists.

On the other hand, as we shall now see, labor's first attempts at united action—collective bargaining—and even its very expression of the ancient right of free association were viewed with suspicion. Early trade unions were regarded as criminal conspiracies at law and bitterly opposed by strong governmental policies of repression.

10. Organization of Workers Opposed under Both Mercantilism and Liberalism.—The prevalent economic philosophy of early modern times was that of mercantilism, which favored governmental regulation of commerce and industry. Powerful monarchs sought to regulate foreign trade and domestic prices. Thus the English Statute of Apprentices attempted to limit the wages of workers; the Assizes of Bread and Ale sought to fix the prices of these food staples.

On the other hand, the economic philosophy of liberalism, which succeeded that of mercantilism toward the end of the eighteenth century, represented the doctrine of governmental noninterference with industry. Consequently, the problem of wage determination was viewed differently, although the actual result of both attitudes was similar, *viz.*, the suppression of wages and the oppression of workers.

The classical economists contended that wages were limited by the supply of capital available for the subsistence of workers. Any arbitrary political interference with the fundamental economic law of supply and demand was regarded as a futile and an unwarranted attempt of organized labor to raise wages above a certain natural rate. Early trade unions in

England were viewed by economists with disdain or despair; they were actively opposed by the very government which professed a policy of *laissez faire* toward business and which practiced a "hands off" policy toward industrial abuses.

11. Combination Acts and Conspiracy Doctrine.—The Combination Acts were a series of laws passed by the British Parliament to prevent either employers or employees from combining to raise the prices of their commodities or services. The law proscribed specifically all agreements among workers to raise wages, to shorten hours of work, or to improve conditions of employment. Justices of the peace were empowered to punish members of such combinations. Under the Combination Acts some labor leaders were imprisoned and others were deported to Australia.

Early trade unions in England were conspiracies under the common law, as well as under such specific statutes as the Combination Acts. As late as the opening of the twentieth century, a British court pointed out the legal significance of collective bargaining in the following analogy, which pictured vividly the old doctrine of conspiracy.

"A grain of gunpowder is harmless but a pound may be highly destructive."[1]

12. British Trade Union Acts.—British statutes expressly forbidding trade unions were repealed in 1824. An act giving some legal recognition to collective bargaining was passed the following year. It was not until about a half century later, however, that trade unions acquired full legal sanction with the passage of the Trade Union Acts between 1871 and 1875. The Conspiracy and Protection of Property Act of 1875 was especially important; it declared that no act which was not criminal if committed by an individual was conspiracy when committed by two or more persons acting in combination. This law has been regarded as the Magna Charta of British trade unions, for it freed them from the burden of the former doctrine of conspiracy.

The British House of Lords, in the important Taff Vale case of 1901, assessed a union of railway workers for large damages done to the company injured by violence during its strike. The dearly won freedom of British trade unions seemed as seriously threatened by the new legal doctrine of liability as by the old legal doctrine of conspiracy. Consequently, in 1906, Parliament passed the Trade Union Disputes Act, which placed labor organizations on a plane of equality with employers' associations. The Trade Union Disputes Act relieved both types of organization from liability for damages from acts done in connection with trade disputes. Under this law, the British court must discover and punish the individual criminals or the specific conspiracy of criminals. It cannot diffuse responsibility over the entire membership of the trade union

[1] *Quinn v. Leathem*, British Appeal Cases, p. 45, 1901.

which is a party to the industrial dispute in which the violence is perpetrated.

13. Present Legal Status of Collective Bargaining in Great Britain.—The present legal status of collective bargaining in Great Britain has been described as follows:

> In the English law, there are no doubts as to the legality of labor unions or of employers' associations. Both the lockout and the strike are legal, as are the boycott and the blacklist. Parallel to the right of employers to get new workmen is the right of the strikers to picket peacefully and to induce them to abstain from working. England's policy is to allow both sides a free hand for a fair fight. It ignores the motives which underlie labor disputes. It does not interfere until the line of intimidation and violence has been crossed. This is a line definitely established by statute, and not left wholly to the courts. The British law has the merits of certainty and practicality.
>
> The most radical departure in the British Trade Disputes Act must still be noted. It is the exemption of trade unions and employers' associations and their members from all responsibility in tort for wrongful acts alleged to have been committed in their behalf. This was Parliament's answer to the Taff Vale case. It made it impossible to maintain any damage suit against a trade union or an employers' association. This is a greater privilege than the limited liability of business corporations. The liability is not merely limited; it is removed in toto. Even though a union may be responsible for acts of violence, it cannot be sued for the damage it caused. Our courts hold the members of labor unions to the unlimited liability of partnerships; in England they are not liable at all.[1]

14. Status of Collective Bargaining in the United States.—There has been a striking contrast between the legal status of collective bargaining in the United States and in Great Britain. Although American trade unions were not forced to go through such a severe struggle for existence as did the first English trade unions, their legal freedom and economic power were achieved later here than in the mother country.

At the present time, the right of trade unions to exist in the United States is not denied, but in certain states labor organizations which are committed to syndicalism are illegal in themselves. Although the empty right of collective bargaining is not denied by the laws of any state, certain weapons of collective bargaining have been outlawed in many American states. Federal recognition of the principle of collective bargaining was finally secured in the National Industrial Recovery Act of 1933 and the National Labor Relations Act of 1935, to be discussed later.

The old doctrine of conspiracy long obscured the legal status of collective bargaining in the United States. The question of motive also

[1] COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," rev. ed., pp. 133 and 134, 1927.

influenced the legality of labor disputes. Finally, labor organizations in the United States did not enjoy the same freedom from legal liability for acts of their members and sympathizers as in Great Britain.

In this country, collective bargaining is restricted by constitutional as well as by statutory law. The doctrine of judicial review has meant that the courts can declare some legislation unconstitutional. Many labor laws have been held to be violations of such constitutional guaranties as that of freedom of contract, held by the courts to be implicit in the property right, guaranteed under the Fifth and Fourteenth Amendments.

In the last place, many laws concerning collective bargaining, like most other problems of labor legislation, fall within the residual powers of the individual states. Hence laws concerning the rights and powers of collective bargaining vary from state to state. This lack of uniformity is further complicated by the variety of court decisions in different states. The federal character of our American government, as well as its constitutional nature, has served to confuse, if not to lower, the general status of collective bargaining in this country. It will be seen that some practices of labor organizations are legal in some states but illegal in others, as well as valid at one time and invalid at another.

15. Sherman Act and Clayton Act.—The most important economic power of the Federal Government, which is specifically granted to it in the Constitution, is that over interstate commerce. Laws passed by Congress for the regulation of interstate commerce may affect the legal status of collective bargaining. An outstanding example is the Sherman Antitrust Act of 1890.

Although trade unions themselves have not been regarded as combinations in restraint of trade, many practices of collective bargaining have been viewed as unwarranted interferences with interstate commerce and as combinations in restraint of trade. Thus the boycott maintained by the Danbury Hatters was held by the United States Supreme Court to violate the provisions of the Sherman Act. Under the provisions of this law, triple damages of about $300,000 were awarded to the Loewe Hat Company.[1]

The Clayton Act of 1914 was then heralded as the American Magna Charta of labor. It proclaimed that "the labor of a human being is not an article of commerce."[2]

In addition to this general denial of a commodity theory of labor, the Clayton Act specifically provided that the antitrust laws should not be construed to forbid the existence of labor organizations or to restrain their members from carrying out "legitimate objectives." But the Sherman Act never had been interpreted as a denial of the right of labor

[1] *Loewe v. Lawler*, 208 U.S. 274, 1908.

[2] Sec. 6 of the Clayton Act.

organizations to exist; even though it had been construed to restrict certain weapons of collective bargaining. This legalization of objectives, which were already legitimate, was as unnecessary as the declaration of the human character of labor was platitudinous.

The Clayton Act, however, did seek to remedy some weaknesses of collective bargaining under the Sherman Act. It sought particularly to strengthen labor's weapon of the boycott and to lessen management's use of the injunction. But, as will be shown in Chap. XVI, the high hopes of labor leaders were not realized in either of these two respects. The Clayton Act failed to clarify the legal status of labor organizations or to strengthen their weapons of collective bargaining.

16. Nature and Significance of Doctrine of Conspiracy.—The doctrine of conspiracy has more than historical significance in connection with collective negotiation in the United States. Consequently, it is highly important to have clearly in mind the essential nature of a conspiracy and to be able to distinguish between lawful combinations of labor and unlawful conspiracies. The following court decision clearly defines a conspiracy.

> A conspiracy is a combination of two or more persons, by some concerted action, to accomplish some criminal or unlawful purpose, or to accomplish some purpose, not in itself criminal or unlawful, by criminal or unlawful means.[1]

One of the most serious features of a conspiracy is the fact that all members of it are held responsible for the acts of all fellow conspirators in seeking their common ends. On the other hand, the doctrine of limited liability and the legal fiction of the corporation as a fiduciary person make it possible for individuals in business not only to restrict their financial responsibility, but also to escape the consequences of some of their actions by passing them on to the corporation, which can be fined but which cannot be imprisoned.

17. Collective Bargaining Freed from Conspiracy Doctrine.—A combination of workers to raise wages, which was originally regarded as conspiracy, is now viewed as legal. If it can be shown, however, that a combination of workers exists for the express purpose of injuring an employer or a group of employers, such a labor organization is an illegal conspiracy. The same is true of an organization which accomplishes or seeks to accomplish a legitimate objective, such as raising wages, by unlawful means, such as the destruction of the employer's tangible wealth or intangible property rights.

The Norris-La Guardia Act of 1932, to be discussed later, embodied in Federal law the judicial principle that any act legal when done by an

[1] *Commonwealth v. Hunt*, 4 Metcalf 111, Massachusetts, 1842.

individual was likewise legal when done collectively. It was a denial of the former doctrine of conspiracy.

18. Collective Bargaining and Property Rights.—As the indictment of labor organizations as conspiracies weakened, a new legal doctrine was sought to take its place. This was discovered or developed in the concept of business as property. Good will or the established relationship of a going concern came to be regarded by the American courts as property. Moreover, the concept of property was expanded to cover the right to enter and do business; it was stretched to imply unhindered access to the commodity and labor markets.

Labor disturbances may threaten the destruction not only of physical wealth, but also of intangible rights, among which are the right to do business. Strikes may jeopardize the good will of an enterpriser; boycotts may limit the sources of his materials or the outlets for his products; picketing may restrict his access to the labor or consumer market.

Under this broadening concept of business as property, the courts extended the use of injunctions by employers to prevent not only the destruction of human life and material wealth, but also to check the impairment of the intangible right to do business. The general problem of the use and abuse of injunctions in labor disputes will be discussed in Chap. XVI. It is to be noted here merely that the former role played by the old doctrine of conspiracy has more recently been enacted by the injunction in restricting the legal status of collective bargaining by workers through an expansion of the employer's property right to do business.

19. Legal Responsibility of Labor Organizations.—When labor disputes are accompanied by acts of violence, the question as to the legal responsibility of the labor organization concerned becomes both difficult and important. The destruction of property in such crises has often been done by irresponsible individuals, within or without the union, rather than by the labor organization itself. Nevertheless, damages against suspected unions, instead of convicted individuals, have been awarded by some American courts.

If labor organizations enjoyed complete immunity from acts of violence and deeds of destruction growing out of labor disputes, it would be possible for their angry members to terrorize employers into granting their demands. Even under ordinary conditions it is not easy to apprehend and to convict criminals. During a labor dispute, popular opinion frequently sides with the workers; arrests, evidence, and convictions are difficult to obtain.

In labor cases of civil suit in lieu of criminal action, the worker sued is apt to have so little property that adequate damages for the losses sustained are frequently impossible to collect, even if awarded.

The only redress of the injured employer then is to attach funds of the union and to hold the labor organization as a whole responsible, as far as possible, for the damages done by its officers, members, or sympathizers.

The responsibility of labor organizations and of their officers and members was affirmed in the Danbury Hatters case. It was reaffirmed and expanded in the suit of the Coronado Coal Company against the United Mine Workers. Considerable destruction of property had been done by a mob during a strike in Arkansas. Accordingly, the Coronado Coal Company brought suit under the Sherman Act against the United Mine Workers for damages of over a half million dollars, in addition to criminal prosecution of those individuals charged specifically with the perpetration of unlawful acts of violence. The United States Supreme Court[1] awarded damages and established the principle that labor unions and their individual members are responsible almost without limit for all unlawful acts of their union officers and of agents whom they had in any manner authorized or sanctioned. Continuous membership in the union, after publicity had been given to the unlawful acts done in its behalf, was sufficient of itself to constitute approval thereof.

Labor leaders bitterly resented this Supreme Court decision fixing responsibility of labor organizations in industrial disputes. They pointed out that leaving their union often involved loss of insurance benefits, termination of friendly associations, and, perhaps, elimination of the only organization for collective bargaining in its field. Although there are good reasons why members of trade unions should be less responsible than stockholders in a corporation for the acts of their officers or agents, this court decision made them even more responsible.

20. Norris-La Guardia Act.—Such court decisions as those rendered in the Danbury Hatters and the Coronado Coal cases were bitterly criticized by labor leaders and liberal statesmen. As a result of popular agitation, the Norris-La Guardia Act was passed by Congress in 1932. Section 4 of this act, which sought to limit use of injunctions in labor disputes, will be treated in Chap. XVI. Section 5, which denied conspiracy, and Sec. 6, which lifted liability, will be outlined below.

Section 5 of the Norris-La Guardia Act attacked the old common-law principle of conspiracy which held that an act when lawful when done by one person might be unlawful when done collectively. It affirmed the long-accepted British principle that no person engaged in a labor dispute should be judged guilty of conspiracy merely because of collective action.

Section 6 disavowed blanket responsibility for things done by individual union members, such as was implied in the Danbury and Coronado decisions. It provided that no Federal court should hold any union

[1] *United Mine Workers v. Coronado Coal Company*, 259 U.S. 344, 1922; *Coronado Coal Company v. United Mine Workers*, 268 U.S. 295, 1925.

agent, officer, or member liable for unlawful acts committed in the course of a labor dispute "except upon clear proof of actual authorization, participation or ratification of such act." Such a position also is in line with the long-accepted principle of British law. It puts the burden of proof on the accuser and not on the accused. It makes necessary the apprehension of the individual criminal or criminals and does not diffuse responsibility over an entire organization.

The passage of the Norris-La Guardia Act was hailed as another great victory of labor and as another decisive triumph of human rights over property rights. Early court decisions, however, were discouraging; they limited the coverage of the Norris-La Guardia Act to interstate commerce. Consequently, individual states found it necessary to pass their own state laws similar in aim and content to the Norris-La Guardia Act.

21. Incorporation of Trade Unions.—The right of incorporation, which is possessed by labor organizations, is rarely used by them. Although most states permit incorporation of trade unions and the Federal Government has authorized incorporation of national unions, such a policy has generally been opposed by labor leaders, who fear that incorporation would facilitate attachment of funds of trade unions after the rendition of unfavorable verdicts and that trade unions might be made more vulnerable to court injunctions.

On the other hand, employers have advocated incorporation of labor organizations as a means of increasing labor's responsibility. They have felt that incorporation of trade unions would facilitate prosecution of suits for breach of contract and might increase the possibility of collection of damages, if awarded to an employer against a labor organization.

The extent to which incorporation would increase the responsibility of labor organizations is doubtful. Incorporation generally carries with it limited liability. It might be more difficult to collect damages from a corporation than from individuals or unincorporated associations, such as the Danbury Hatters and the United Mine Workers, who were sued successfully by the Loewe Hat Company and the Coronado Coal Company. It is still possible for an unincorporated union to be sued in the courts for a breach of contract or for a violation of the law; a verdict may be rendered and damages awarded against it. Not only can the union funds be attached, but some or all of its individual members may be held liable, in whole or in part, for damages awarded against the union.

22. Collective Bargaining of Labor and Capital Compared.—The legal status of labor organizations has been threatened by the lingering doctrine of conspiracy; it has been challenged by the expanding concepts of property and freedom of contract. While business corporations have enjoyed limited liability, members of labor organizations have been held to account for the actions of their officers and sympathizers.

This legal disparity is intensified and not offset by a similar disequilibrium in the economic positions of the two parties. Labor is a more perishable commodity than capital. The resources of workers are generally less than those of their employers. Loss of ownership of the instruments of production without compensatory development of labor organization results in inferior bargaining power of the workers.

The social, as well as the economic, contrast is drawn as follows.

> The issue of the desirability of collective bargaining by labor is much confused by the parallel of the combinations to control prices. Combinations to monopolize commodities are against public policy; why then should labor unions be favored in the law? This parallel overlooks the vital distinction between commodities and labor. The "commodity" labor can never be divorced from the human being, the laborer. The labor contract is a bargain, not only for wages, but also for hours of labor, physical conditions of safety and health, risks of accident and disease. Labor cannot be placed upon the same plane with commodities, which are external and inhuman. It is in the interest of the public that the most favorable conditions of labor shall prevail. Since labor constitutes such a large part of the public, the general welfare depends intimately upon its advancement. While the public suffers from high prices, it benefits from high wages.[1]

23. Collective Bargaining under the National Industrial Recovery Act. It would seem, then, that the more powerful business interests had been favored by the law and by the courts. The workers, less powerful economically, had also been less fortunate politically. And all this despite the oft-repeated assertion that labor is not a commodity and the contention that higher wages are not to be viewed with the same apprehension as higher prices.

The years of depression following 1929 were those of economic distress, social unrest, and political panaceas. They were followed by years of relief, recovery, and reform, the new three *R*'s of Franklin D. Roosevelt, who appealed at the polls to the masses of forgotten men and who repudiated in his campaign speeches the princes of privilege. The New Deal was, in effect, an economic revolution; *i.e.*, it turned things about. It sought to extend the more abundant life to the underprivileged; it likewise sought to redress the balance of power between employers and employees by recognizing and fostering the right of workers to bargain collectively. Big business went under a cloud of public criticism; labor moved from the shadows to the sunshine of political favor.

The National Industrial Recovery Act of 1933 affirmed the right of labor "to organize and bargain collectively through representatives of their own choosing." The framers of this law regarded the organization of workers into effective and independent groups as desirable as the organization of employers into trade associations. The former was to

[1] COMMONS and ANDREWS, *op. cit.*, p. 126.

bargain collectively as to wages, hours, and working conditions; the latter was to formulate industrial codes concerning trade policies and practices.

Labor leaders hailed this legal sanction of collective bargaining as another Magna Charta of labor. John L. Lewis, president of the United Mine Workers of America, called it the greatest advance in the legal status of labor since Lincoln's Emancipation Proclamation.

Various labor leaders attempted to interpret the legalization of the general principle of collective bargaining by the National Industrial Recovery Act as a vindication of the closed shop, walking delegate, and other particular forms of collective bargaining, to be discussed later. They also sought to capitalize this gain in the legal status of labor through an intensive campaign for increased membership in their own unions.

On the other hand, employers contended that company unions, or associations of their own employees, were organizations practicing collective bargaining within the meaning of the new law. Indeed, some sought to write such an interpretation of the general principle into their own industrial codes. These attempts were unsuccessful. Equally fruitless were efforts of labor organizations to secure legislation which would completely outlaw company unions. Meanwhile it was necessary for government officers to supervise elections in order to determine whether or not coercion had been exerted, and which of several rival organizations was the real choice of the majority of the workers concerned. In some cases it was necessary to deal with two or more organizations within the same plant. The issue was sometimes that of company unionism against independent unionism, but at other times the conflict was between competing independent unions.

Controversy over the interpretation of the general principle of collective bargaining and contention among rival labor organizations for the coveted position of the workers' choice were abruptly halted by the decision of the United States Supreme Court declaring unconstitutional the National Industrial Recovery Act. This important decision[1] invalidated the principle of collective bargaining contained therein and the various industrial codes formulated thereunder.

24. National Labor Relations Act.—The decision of the United States Supreme Court invalidating the National Industrial Recovery Act repudiated the previous legalization of the general principle of collective bargaining. If this principle was to be saved and perpetuated, prompt action and new legislation were needed. Accordingly, the National Labor Relations Act, known popularly as the Wagner Act, was passed some weeks later in the same year, 1935. The new law, like its predecessor, was based on the interstate commerce powers of the Federal Government; but it avoided the previous mistake of delegating legislative power

[1] *Schechter Poultry Corporation v. United States*, 295 U.S. 495, 1935.

to the executive branch of government and so withstood successfully the charge of unconstitutionality.[1]

a. Provisions.—The National Labor Relations Act reaffirms the general principle contained in the National Industrial Recovery Act; it guarantees to workers the right to bargain collectively through representatives of their own choosing. Moreover, the principle of majority rule is added. The employer must recognize and negotiate with whatever union the majority of workers in his plant designate. This makes it difficult for him to foster rival unions and to play one union off against another.

The law legalizes the union shop, but it does not enforce the closed shop. It does compel the employer to treat with whatever union the workers choose whenever the majority of them so decide. But the law does not compel every worker in a unionized shop to join that union or even to join any union, nor does it force the employer to hire and to retain only union men, even though he cannot discharge a man for union membership or organization activity. It does not require the checkoff, under which the employer deducts union dues from the wages of his men and then turns these funds over to the union officers.

The law does not require the arbitration of industrial disputes; it does not deny the right of labor to strike. The purpose of this act is to preserve the right of collective bargaining and not to promote industrial conciliation, which desirable aim is expressed in other laws and exercised through other agencies.

In addition to the promotion of the general principle of collective bargaining, the National Labor Relations Act contains a set of specific prohibitions of things which the employer may not do. These "don'ts" may be grouped roughly about the three *D*'s of domination, discrimination, and discharge. The employer may not interfere in the internal affairs of any labor organization, nor may he contribute financially toward its support. The employer may not discriminate between union and nonunion men or between members of rival unions in his hiring and firing; nor may he discharge a worker because of union activity or because he filed charges or gave testimony against an employer. The law proscribes interference, coercion, or restraint of employees by employers, just as it prescribes that the employer must bargain collectively with the accredited representatives of the majority of his workers; these prohibitions are regarded as essential to the fundamental prescription.

Finally, the law created an administrative agency to enforce the general principle of collective bargaining, to investigate charges of discrimination or coercion, and to supervise plant elections. This agency is known as the National Labor Relations Board; it consists of three

[1] *National Labor Relations Board v. Jones and Laughlin Steel Corp.*, 301 U.S. 1, 1937.

members appointed for 5-year terms by the President of the United States with the approval of the Senate.

b. Procedure.—The National Labor Relations Board has established regional offices to hear cases of alleged discrimination or coercion within their respective jurisdictions. An employee may report directly, but he generally prefers to bring charges through the union of which he is a member or an officer. The director of the regional office then orders a field investigator to explore the situation and to discover whether or not there is sufficient cause to order a trial hearing. If the charge is grave and the evidence seems sufficient, the employer is summoned to the regional office and there given an opportunity to refute the indictment. Should the charge of intimidation, discrimination, or coercion be sustained, the regional director will ordinarily issue a "cease and desist" order; he may also penalize the employer judged guilty and order the reemployment of the worker or workers unfairly discharged, with perhaps payment of back wages.

c. Criticism.—Employers have bitterly criticized the National Labor Relations Act, because it interferes with their former right to hire and fire as they choose. They contend that the act is one-sided in that it favors labor but hampers employers. This criticism is true but unfair. The law was specifically intended to balance the disparity between the economic powers of the two parties by granting to workers the legal right to bargain collectively through representatives of their own choosing and by enforcing that right through legislative prohibitions and administrative procedures.

When an attempt is made to redress a wrong or to right a disequilibrium, the result is often to throw the scales of justice from one side to the other. Such apparently has been the case with labor relations in general and with the National Labor Relations Act in particular. The disparity remains, but in reverse and to a lesser degree.

Opposition has been expressed to the tremendous power vested in the National Labor Relations Board. It is contended that this body should confine itself to matters of fact and leave to the courts matters of law. Considerable dissatisfaction has resulted from "unfair" methods of procedure and from delays in the disposition of cases. Employers have claimed that decisions have been biased in favor of labor and that management has been convicted in advance without judicial trial.

Many criticisms might be made of particular parts of the National Labor Relations Act and of specific features of its administrative procedure. But more important than the petty sins of commission are the great sins of omission. Intimidation and coercion of employees by employers are forbidden by the law, and properly so. But intimidation of workers by other workers and coercion of unorganized employees by organized employees are equally vicious and even more

common. The law is silent, however, on this point, which might well be covered by supplementary legislation. Again, if an employer is forbidden to aid a company union and to interfere in union affairs, by what right can union leaders ask employers to perform the checkoff service, to collect union dues, and to maintain union membership?

d. Similar State Laws.—The Federal Government has power over interstate commerce, but individual states possess jurisdiction over intrastate industry. Hence the legalization of labor's right to collective bargaining requires state, as well as Federal, action. Consequently and subsequently, certain states have passed laws similar in purpose and procedure to the National Labor Relations Act. It will be remembered that the Norris-La Guardia Act was likewise supplemented by similar state laws. In this way our national life is working slowly but voluntarily toward a more uniform pattern of social and economic legislation. In contrast, the Social Security Act of 1935 moved us rapidly but coercively toward the desirable goal of legislative uniformity through the impulsion of Federal subsidies and the compulsion of a Federal pay-roll tax to be returned to cooperating states.

Summary.—Class struggle and exploitation of workers are far older than capitalism and the wage system. Slavery and serfdom were conditions of status, in which social position and economic function were determined by birth or conquest. In modern times, exploitation has decreased and opportunity has increased; status has been replaced by freedom of contract; and master-and-servant relationships have been succeeded by those of employer and employee. At present, the labor movement seems to be undergoing a transition from individual to collective bargaining and from industrial paternalism to industrial democracy.

Collective negotiation among workers is relatively recent. Even modern attempts of workers to organize and to bargain collectively were bitterly suppressed. Concerted action by employers was opposed less promptly and less vigorously. The corporation soon enjoyed limited liability, but labor organizations had a long struggle to secure it.

A conspiracy is a combination to accomplish something illegal in its intent or to secure a legal objective in an illegal manner. Early trade unions in Great Britain and the United States were regarded as criminal conspiracies. As the conspiracy doctrine weakened, the legal concept of property rights was advanced to aid the American employer in resisting the collective negotiations of his employees.

The legal status of collective bargaining is confused by the federal and constitutional character of our government. It is further complicated by the different laws and court decisions of various states.

The chief Federal power affecting collective negotiation is that over interstate commerce. Under provisions of the Sherman Act, labor organizations have been indicted as combinations in restraint of trade

when they resorted to strong weapons of collective bargaining. The Clayton Act improved the status of labor only slightly.

The Norris-La Guardia Act sought to terminate the old doctrine of conspiracy and to limit the liability of trade-union members and officers. The National Industrial Recovery Act, declared unconstitutional, and the National Labor Relations Act, sustained by the courts, affirmed the right of labor to bargain collectively through representatives of their own choosing. The National Labor Relations Board was created to enforce this right of workers and to prevent employers' domination of union affairs, discrimination against union members, and discharge of union leaders. The New Deal assured the legal status of labor and the right of workers to organize effectively and to bargain collectively.

Questions for Discussion

1. *a.* Distinguish between status and freedom of contract.
   b. Differentiate slavery from serfdom.
2. Compare medieval guilds with modern trade unions. Relate to collective negotiation.
3. *a.* Define a conspiracy.
   b. Show its significance to labor organizations.
4. Compare the legal status of labor in Great Britain with that in the United States.
5. What factors serve to confuse the legal status of collective negotiation in the United States? How? Why?
6. *a.* Show effects of the Sherman Act on collective negotiation.
   b. Give influence of the Clayton Act on legal status of labor.
7. *a.* How may an extension of the power of collective bargaining affect property rights?
   b. How may an extension of the concept of private property affect rights of collective bargaining?
8. Why have labor organizations been held responsible for damages growing out of industrial disputes? Give examples and reasons.
9. *a.* Compare the collective-negotiation privileges of labor with those of capital.
   b. Contrast governmental restrictions in the two instances.
10. Make out a case for or against incorporation of labor organizations.
11. Outline recent progress toward the legalization of collective bargaining in the United States.
12. Give the main features of the National Labor Relations Act.

Topics for Investigation

1. Economic factors in the struggles between Roman plebeians and patricians.
2. Economic causes and effects of peasant revolts in the medieval period.
3. Economic history as interpreted by Karl Marx.
4. Early English trials of labor leaders for conspiracy.
5. Concept of the right to do business as private property.
6. Limits of legal responsibility of labor organizations for damages in industrial disputes.
7. Norris-La Guardia Act.
8. National Labor Relations Board.

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CHAPTER XIV

LABOR ORGANIZATIONS AND EMPLOYERS' ASSOCIATIONS

PRESENT INDUSTRIAL ALIGNMENT

1. Types of Labor Organizations.—Labor organizations are associations of workers for the purpose of improving their economic and social conditions. They may be classified either by their forms or by their functions. From the former point of view, there are three structural types of labor organizations: (1) labor unions, (2) trade unions, and (3) industrial unions.

Labor unions, in the strict sense of that term, are of mere historical significance. The Knights of Labor may be taken as the best illustration of this type of organization. All classes of workers were welcomed into it; professional men and even employers were sometimes admitted. The labor-union movement was humanitarian and idealistic. Instead of the strike and boycott, reliance was placed on education, social reform, cooperation, and political activity.

The trade union is an association of workers in a particular craft. Its members are chiefly skilled workers. Although there may be federations of trade unions, each individual union preserves its own autonomy. Trade unionism is essentially utilitarian in its aims; it exists primarily to bargain collectively for improved conditions. Reliance is placed on the strike and other economic weapons. The United Brotherhood of Carpenters and most member organizations of the American Federation of Labor are trade or craft unions.

The industrial union cuts across craft lines. It seeks to unite all workers in an industry into a coherent and centrally controlled organization. Class consciousness and group solidarity are sought; the two extremes of narrow trade unionism and broad humanitarianism are avoided. Unskilled, as well as skilled, workers are admitted into industrial unions. The United Mine Workers have an industrial union. All workers in mines, irrespective of occupation or degree of skill, may become members of that organization. The Congress of Industrial Organizations, to which the United Mine Workers once belonged, is a powerful federation of industrial unions. The Industrial Workers of the World was formerly the chief industrial union.

Industrial unions are vertical organizations, whereas craft unions are horizontal in character. Perhaps a better figure would be a series of three

concentric circles: the smallest inner circle represents trade unions; the next larger, middle one represents industrial unions; and the largest, outer circle represents labor unions. Both figures are illustrated by Chart 43.

Organizations of labor have been classified also as follows: (1) business unionism, (2) friendly or uplift unionism, (3) revolutionary unionism, and (4) predatory unionism.[1] It will be seen that the results of these two classifications are somewhat similar, even though the one is based on form of organization and the other on character or function.

Business unionism is another way of expressing the immediate and utilitarian objectives of trade unionism, such as increased wages for a particular group of workers. Friendly or uplift unionism is more general in its appeal and more idealistic in its aims. Its outstanding examples are labor unions in the strict sense of the term.

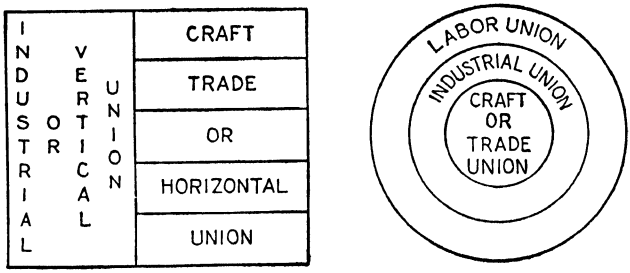


CHART 43.—Types of labor organizations.

Revolutionary unionism, as illustrated by the Industrial Workers of the World, stresses class instead of craft consciousness. It calls on all workers to unite in an attempt to overthrow capitalism and to escape from the bondage of the wage system. Revolutionary unionists include syndicalists, who would establish an industrial commonwealth by direct action.

Predatory unionism may be regarded as business unionism conducted for the selfish interests and personal gains of its leaders. It has little regard for the welfare of rank-and-file members of the union or for the success of industry as a whole. Like the political machine in our cities, with which it may be associated, predatory unionism is corrupt and boss ridden; without definite aims, its course of action is expediency and opportunism. Predatory unionism has often been characterized by violence and terrorism. It has been termed a "racket."

Both these classifications omit company unions, which are associations of the workers of a particular plant or business concern. They follow the financial or corporate organization of the employer. Because they

[1] HOXIE, R. F., "Trade Unionism," rev. ed., pp. 44–52, 1923.

have been organized by management or have been subservient to it, company unions are not regarded by their critics as part of the labor movement. Employee organizations will be treated in Chap. XIX.

2. Early Trade Unions in America.—Colonial America was agricultural; the labor supply was augmented by slaves and indentured servants. Manufactures were relatively unimportant until the War of 1812, and large-scale industrialism was not established until after the Civil War. Before the advent of the factory system, however, craft organizations of skilled artisans had developed in our larger towns and cities. In the first quarter of the nineteenth century these organizations of labor became significant in our national life.

The modern trade union or association of allied craftsmen may be said to have originated in 1827 with the Mechanics' Union of Trade Associations in Philadelphia. Similar organizations were formed in other cities, and labor parties were organized in several states. A National Trades Union held its first annual convention in 1834. Carpenters, cordwainers, printers, and other skilled mechanics were represented by their respective national trade unions.

These labor organizations expressed themselves vigorously against imprisonment for debt, convict labor, and sweatshops; they were favorably disposed toward the 10-hour day, free schools, and mechanics' lien laws. But the early trade-unionist movement in America soon lost its identity in the general humanitarian movements of the ante bellum period. Abolitionists were interested in the elimination of slavery and perfectionists were intrigued by cooperative communities. Disgruntled individuals and idealists could go west to seek their fortunes and to carry civilization to the frontier.

3. National Labor Union and Knights of Labor.—The great industrial development which followed the War between the States stimulated the organization of labor on a vaster scale than ever before in America. Every large city had its trades' assembly composed of most organized crafts. The National Labor Union was formed in 1886; it held annual conventions for the following six years. Meanwhile the trade-union movement had been temporarily eclipsed by the rise of labor unionism.

The Noble Order of the Knights of Labor was founded by a tailor in Philadelphia on Thanksgiving Day, 1869. At first it was a secret organization with an elaborate ritual. This was abandoned when the movement spread from the garment workers to those of other trades. The Knights of Labor ceased to be a local organization, as its ideal expanded into that of an amalgamation of all workers into one great labor union.

The original policy of the Knights of Labor was to discourage strikes and boycotts. It relied on educational and political action instead of these economic weapons. Through cooperative means and a campaign

of education, it hoped to abolish the evils of the wage system and to substitute a cooperative commonwealth.

For a decade or two, the Knights of Labor was a powerful force in our national life, but its zenith was reached in 1886, when its membership amounted to over a half million workers. The governmental machinery of the Knights of Labor was highly centralized; internal dissensions soon arose among local labor unions. Its membership and influence quickly waned.

4. Origin of American Federation of Labor.—The American Federation of Labor was founded in 1881, but it was reorganized under its present name in 1886. It began as a reaction against the idealistic and centralized labor unionism of the Knights of Labor and as a revival of the more practical objectives and independent organization of trade unionism. The later disintegration of the once-powerful Knights of Labor discouraged political activity on the part of organized labor and encouraged reliance on itself and on its own weapons of collective bargaining.

At the time of its inception in 1881, the affiliated national unions of the A.F. of L. possessed a membership of only 40,000, but during the next 5 years this number more than tripled; at the time of its reorganization in 1886 the A.F. of L. possessed a membership of 138,000. During this same 5-year period, however, the Knights of Labor had increased in membership from slightly over 19,000 in 1881 to almost 703,000 in 1886, *i.e.*, to thirty-seven times their original number. In 1881, membership in the Knights of Labor was less than half that of their rivals; in 1886, it was over five times as great.

This situation was completely reversed between 1886 and 1893. The A.F. of L. continued its steady growth, whereas the Knights of Labor decreased as rapidly as it had increased. Membership in the Knights of Labor receded from its high-water mark of almost 703,000 in 1886 to only 75,000 in 1893; *i.e.*, to one-tenth. On the other hand, membership in the A.F. of L. increased from 138,000 in 1886 to 260,000 in 1893; *i.e.*, it almost doubled. The Knights of Labor failed to survive the depression of 1893. The A.F. of L. suffered merely a slight recession, from which it rapidly recovered to unchallenged leadership in the labor movement.

5. Growth and Decline of Trade Unionism.—The A.F. of L. increased from a membership of about 250,000 in 1897 to one of approximately 1,500,000 in 1904. Trade-union membership in general meanwhile rose from 500,000 to 2,000,000. These 7 years, then, represented a period of vigorous growth for the A.F. of L. in particular, whose membership increased sixfold, and for trade unionism in general, whose membership quadrupled.

The following few years constituted a period of stagnation, or perhaps one of consolidation. From 1904 to 1909 membership in the A.F. of L.

remained at about 1,500,000. Membership in all trade unions likewise fluctuated about its former mark of 2,000,000, with no definite upward or downward trend.

The years immediately before the First World War constituted a period of slow growth, halted by the incipient depression of 1914, which was reflected in the figures for 1915. Nevertheless, from 1909 to 1914, membership in the A.F. of L. increased to 2,000,000 and that in all trade unions rose to 2,750,000.

The 5-year period of "war prosperity" from 1915 to 1920 was one of rapid growth, in which membership in the A.F. of L. doubled from 2,000,000 to 4,000,000 and that of all trade unions likewise doubled from 2,500,000 to 5,000,000.

Retrogression followed expansion during the first postwar depression. From 1920 to 1923 membership in the A.F. of L. fell by 1,000,000 and that of all trade unions by 1,500,000. The movement sloughed off much of the mushroom growth of the earlier period. Nevertheless, it remained larger and stronger than it had been before the First World War.

The period of economic prosperity between the minor depression of 1921 and the major depression following 1929 witnessed the rapid spread of company unionism. With this new rival in the field, the growth of trade unionism was arrested; for the first time in its history, membership figures did not expand in the prosperity phase of the business cycle. Although there were minor fluctuations between 1923 and 1929, there was neither net growth nor decline. Membership in the A.F. of L. remained at about 3,000,000 and that in all trade unions at about 3,500,000.

The great depression took a terrible toll from labor organizations, striking evidence of which was the decline in union dues. Although not so evident in the first year or two, the drop in membership was especially severe in 1932 and 1933, by which time the rolls of the A.F. of L. were down to their prewar level of approximately 2,000,000 and those of all trade unions were reduced to about 3,000,000.

Following the legalization of collective bargaining in 1933 and 1935, membership in the A.F. of L. increased rapidly. Despite the rupture with the C.I.O. and the business recession of 1937, the A.F. of L. in 1940 passed its previous peak of 1920. In 1941, there were 4,569,056 paid-up members in the A.F. of L., or more than ever before.

6. Organization of American Federation of Labor.—The A.F. of L. is a loose affiliation of 106 national and international trade unions. Relationships are complex and changing. Variety and variation of organization are the rule. The individual union is autonomous and jealous of its freedom of action.

Samuel Gompers, former president of the A.F. of L., defined it as follows:

The American Federation of Labor is a federation of organizations, each of which has its own government, determined by its own needs and requirements, the result of the experiences of the members of the organization. The right to self-government was recognized in the beginning and has been reaffirmed and adhered to as consistently as possible. The federation has no powers except those which are authorized and conceded by the organizations which compose it. These powers are enumerated in its written constitution and in the definite direction of the convention.[1]

The local trade union is to the A.F. of L. what the cell is to a biological organism, for it is the basic unit of the entire trade-union organization. With this as the nucleus, the process of expansion may be vertical, horizontal, or both. The locals are required to join the national unions of their respective trades. Sometimes there are also state and international trade unions. At the same time, a local trade union may affiliate itself with the central labor union of the town or city in which it is located. In such a case the combination is termed a "federal trade local." Where the workers in any one craft are too few in numbers to form a local for any one particular trade, they may ignore craft lines and organize as a federal labor union.

The national or international trade union is an important unit, for sovereignty lies in the individual union, rather than in the federation as a whole. Strong national trade unions maintain experienced organizers and create their own locals, to which they may issue charters. National unions can render financial assistance to struggling locals, but they can also discipline them for going against their general policy and that of the A.F. of L.

The annual convention of the A.F. of L. is important. Officers are elected, problems are discussed, and policies are formulated. Each national trade union is represented by one delegate for each 4,000 paid-up members or fraction thereof. One delegate each is allowed state federations, city centrals, federal labor unions, and federal trade locals. Several fraternal organizations also are represented. An executive council, consisting of a president, numerous vice-presidents, a secretary, and a treasurer, is elected annually. It carries on the work of the A.F. of L. from one annual convention to another. Permanent headquarters are maintained in Washington from the revenue derived from a per capita assessment on the membership of the affiliated unions.

7. American Federation of Labor in Relation to Trade Unionism in General.—The A.F. of L. is only a part of the general trade-unionist movement of this country, although numerically the most important part. Trade unionism includes some important but independent craft

[1] GOMPERS, S., "Labor and the Employer," chap. 1.

unions not affiliated with the A.F. of L. The Railroad Brotherhoods, for example, are independent trade unions.

Before the formation of the Congress of Industrial Organizations, the A.F. of L. included a few unions which were industrial in character and not organized along trade-union lines. The United Mine Workers of America was for years the outstanding illustration of an industrial union affiliated with the A.F. of L.

Fluctuations in the composition of the A.F. of L., due to the formation of new affiliations or the disruption of old ones, are frequent. Hence the strength of the trade-unionist movement in this country cannot be inferred merely from membership figures of the A.F. of L. Total trade-union membership, as just indicated, has been about 25 per cent greater than that of the A.F. of L.

8. Strength of Trade Unionism in Various Occupations.—Changes in the type of membership in trade unions are as interesting as fluctuations in numerical totals. Various periods have been characterized by important qualitative, as well as quantitative, changes. Hence an analysis of the occupational elements in American trade unionism is as necessary as a review of its history.

The following table shows the relative strength of trade unionism by occupations during the decade from 1910 to 1920, which was a period of ascendancy for trade unionism. It is apparent at a glance that the hold

PERCENTAGE OF EACH INDUSTRY ORGANIZED[1]

Industries	1920	1910
Extraction of minerals	41.0	27.3
Manufacturing industries	23.2	11.6
Transportation	37.3	17.1
Building trades	25.5	16.4
Trade	1.1	1.0
Professional service	5.4	4.6
Clerical occupations	8.3	1.8
Domestic and personal service	3.8	2.0
Public service	7.3	2.5

[1] WOLMAN, L., "The Growth of American Trade Unions, 1880–1923," p. 86, National Bureau of Economic Research, 1924.

of trade unionism was in the mining, manufacturing, transporting, and building industries. Moreover, the increase in trade-union membership within this decade was concentrated chiefly within these four industries. Membership percentages doubled in manufacture and transportation; it almost doubled in mining and building. Trade, the professions, domestic and personal service, on the contrary, were, for the most part, unorganized; they remained so for the entire period, indifferent to or

unaffected by the vigorous growth of trade unionism elsewhere. Finally, a third group of occupations, notably clerical and public service, almost tripled their percentages organized, even though their ratios of organized members to total members were small.

The American trade-unionist movement was limited almost entirely to the artisan group. Agriculture was excluded from its appeal. Even within industry itself, trade unions attracted only a minority of all wage earners. Perhaps the very nature of trade unionism restricted its appeal to skilled craftsmen. In any event, most unskilled workers and many semiskilled workers were outside the ranks of organized labor before 1933.

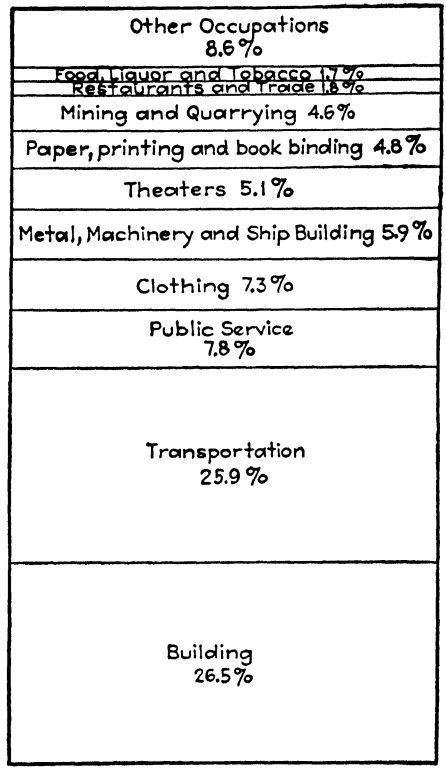


CHART 44.—Distribution of trade-union members according to occupations in 1930. (*Based on "Recent Social Trends," vol. 2.*)

See table on next page.

Membership in American trade unions seems to have been concentrating still further. Chart 44 on this page shows that transportation and construction continued to be the two large occupations highly organized. This was due, in part, to the fact that both these industries were somewhat sheltered from the forces of competition and mechanization. Transportation of most types has been a natural monopoly of organization under governmental regulation. The building trades are still primarily handicrafts; they are peculiarly local in character. On the other hand, mining occupations, especially in the bituminous industry, were subjected to devastating competition which wrought havoc within those unions. Attempts to maintain the closed shop in the organized soft-coal fields against opposition from other coal fields, unorganized or nonunion in character, failed dismally in the postwar decade. Unions were shattered, funds exhausted, and membership dissipated in a series of unsuccessful strikes. On the other hand, clothing workers maintained with some degree of success their gains in numbers and strength achieved from 1910 to 1920.

The table on page 352 analyzes trade-union membership by industries from 1910 to 1930. In contrast to the former table, the percentages

given here represent the percentages by industries of all organized workers, not the percentages of all workers in a given industry who were organized.

TRADE-UNION MEMBERSHIP DISTRIBUTED BY PERCENTAGES ACCORDING TO FIFTEEN INDUSTRIAL GROUPS FROM 1910 TO 1930[1]

Group	1910	1920	1925	1930
All groups	100	100	100	100
Transportation	22.0	24.6	25.0	25.9
Building	21.0	17.4	23.5	26.5
Metal, machinery, and shipbuilding	9.0	16.8	5.6	5.9
Food, liquor, and tobacco	5.3	2.3	2.0	1.7
Paper, printing, and book binding	4.1	3.2	4.4	4.8
Chemical, clay, glass, and stone	2.8	1.0	1.2	1.0
Mining and quarrying	12.6	8.2	11.5	4.6
Leather	2.1	2.2	1.5	1.3
Clothing	4.4	7.1	7.8	7.3
Public service	2.7	3.2	5.4	7.8
Textile	0.9	2.9	1.0	1.0
Theaters	2.8	1.9	4.6	5.1
Restaurants and trade	2.7	2.8	1.7	1.8
Lumber and woodworking	1.3	0.5	0.3	0.4
Miscellaneous	6.3	5.9	4.5	4.9

[1] "Recent Social Trends," vol. 2, p. 834.

9. Industrial Workers of the World. *a. Origin.*—The organization known as the Industrial Workers of the World emerged in 1905 at Chicago as a merger of such radical groups as the Socialist Labor Party, the American Labor Union, and the Western Federation of Miners.[1] In 1908, differences developed as to the course of action, and the Industrial Workers of the World split into two groups which were known as the Chicago and the Detroit branches. In 1915, the latter became known as the Workers' International Industrial Union. This group had socialism as its objective and favored political, as well as industrial, action. Hence it might be classified as a radical type of socialism.

The Industrial Workers of the World, *i.e.*, the Chicago branch after the secession of the Detroit branch, was syndicalistic rather than socialistic. *Syndicat* is the French word meaning "union." Syndics were really councils of communists. The Industrial Workers of the World in America, syndicalism in France, revolutionary industrial unionism in Great Britain, and bolshevism in Russia were different national aspects of a general world movement. Private property and the political state were condemned. Their goal was that of an industrial commonwealth of free associations of workers, like the Russian Union of Soviet Socialist Republics.

[1] This organization later withdrew and joined the A.F. of L.

b. Aims.—The Industrial Workers of the World was an industrial, not a trade, union. Its aims and practices, as well as its organization, afforded a striking contrast to the more conservative A.F. of L. The Industrial Workers of the World represented revolutionary, rather than evolutionary, unionism. Bitterly opposed to the utilitarian aims and conservative methods of trade unionism, the promoters of this labor organization sought a union of workers by industries, instead of crafts, and cherished the hope of final amalgamation into one big union. Whereas the A.F. of L. accepted capitalism and the state, the Industrial Workers of the World sought the destruction of existing economic and political orders.

The Industrial Workers of the World repudiated political action, on the one hand, and collective bargaining, on the other. Direct industrial action by all workers through the general strike was advocated. The doctrines of class struggle and revolution were taught; the solidarity of all workers was sought for the dictatorship of the proletariat.

c. Policy of Sabotage.—Direct industrial action includes not only the general strike, but also sabotage. The origin of this term is found in the French word *sabot*, meaning the rough wooden shoe worn by European workers. The American expression of "dropping a wrench in the works" is its equivalent. If the demands of the workers are not met, they may secretly destroy the machinery of their employer. It is almost impossible to discover the malefactor without resort to industrial espionage. It is obvious that sabotage, if unchecked, can cause tremendous human and property losses. On the other hand, sabotage may be merely the peaceful "soldiering on the job," which is expressed by the Scotch words "ca' cannie" and which is represented by the "slow down" strike conducted while at work.

d. Strength.—Because of its radical aims and violent methods, the Industrial Workers of the World was a hated and hunted organization. Although a serious threat to industrial production and the existing economic order, its membership was relatively small and unstable. In 1910, the first year for which information was available, the secretary-treasurer of the organization announced 5,863 paid-up members. By 1917, this had increased to about 60,000, and an aggregate of 300,000 membership cards had been issued since the beginning of the organization in 1905.

During the First World War, a vigorous policy of suppression was carried on by the government. Whether the result was an increase or a decrease in membership of the Industrial Workers of the World is difficult to determine. A policy of secrecy was adopted and a resort to underground methods of activity was made. Even in peaceful and normal times it has been difficult to get authoritative figures for the membership

of the Industrial Workers of the World, which has attracted a variable and an unsteady group, composed largely of floaters and casual workers.

At the Sixteenth Annual Convention of the Industrial Workers of the World in 1924, its paid-up membership was reported as 37,600. In 1929, the U.S. Bureau of Labor Statistics estimated its strength at about 30,000. During the depression of 1929 to 1933, the Industrial Workers of the World almost disappeared. A convention was held in 1931, but only seven official delegates were present.

10. Bird's-eye View of American Labor Movement.—In reviewing the history of the American labor movement from the War between the States to the New Deal, three steps are discernible. The first and smallest step was that of 1886, when the combined membership in both the Knights of Labor and the American Federation of Labor almost reached the million mark. As the great majority of these organized workers belonged to the Knights of Labor, the year 1886 represented the peak of labor unionism.

The second step, later and higher, was that of 1920; it represented the pinnacle of trade unionism. In that year, membership in the American Federation of Labor was over 4 million and that in all trade unions was over 5 million. Trade unionism then stood almost without a rival, for labor unionism of the Knights of Labor had passed into history, industrial unionism of the Industrial Workers of the World was being suppressed, and company unionism of employees was in its infancy.

The third step, which is the latest and highest in the entire history of organized labor in this country, can be dated from the passage of the National Industrial Recovery Act of 1933, at which time company unionism and trade unionism were strong rivals for supremacy, each claiming several million members. The legal affirmation of the right of workers to bargain collectively through representatives of their own choosing increased membership in all labor organizations but changed their relative importance. The National Labor Relations Act of 1935, which reaffirmed the principle of collective bargaining and set up administrative machinery for its enforcement, was stimulating to trade unions but depressing to company unions. It was, as we shall now see, reviving to industrial unions.

Chart 45 shows the rapid, recent growth of membership in labor organizations in the United States and Canada from 3 million in 1933 to 11 million in 1941. These figures include the combined membership of the A.F. of L., the C.I.O., and independent unions; they exclude membership in company unions.

11. Congress of Industrial Organizations. *a. Background.*—Industrial unionism had existed in the United States before the New Deal; the

outstanding example was the Industrial Workers of the World. Even within the ranks of the more conservative A.F. of L. there were some unions organized vertically on an industrial basis, instead of horizontally on a craft basis; the most conspicuous illustration was the United Mine Workers.

The increased mechanization of industry, the growth of big business and the large corporation, and the advent of mass production led many labor leaders to feel that industrial unionism was better adapted to modern production methods than was the older trade unionism. Moreover, the failure of trade unions to expand during the prosperous twenties and to resist successfully the gains of company unions seems to confirm

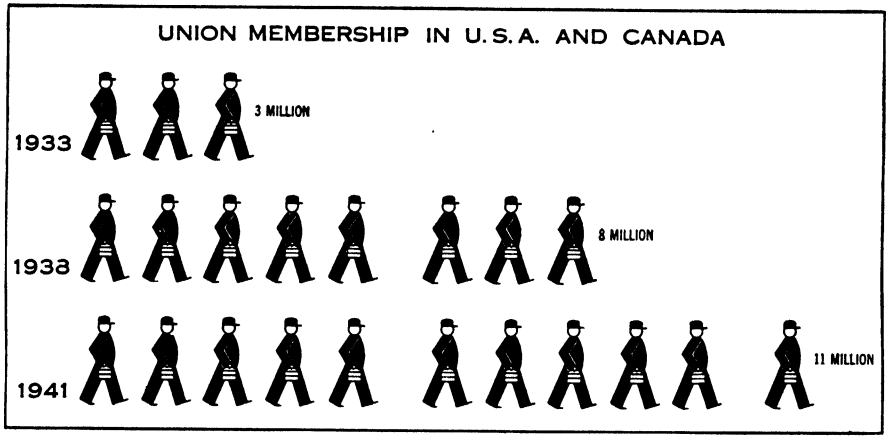


CHART 45.—Recent growth of labor organizations.

their views. Finally, the legalization of collective bargaining in 1933, and again in 1935, offered an unprecedented opportunity to organize basic industries, such as motors, steel, and textiles, and to reach the great groups of semiskilled machine operators. The unionization of these mass-production industries and the organization of thousands of workers on repetitive jobs apparently could not be done effectively on a craft basis. A different and more successful approach by the industry as a whole could not or would not be taken, so it was felt, by the A.F. of L. under its existing leadership and under its traditional form of organization.

b. Origin of Congress of Industrial Organizations.—Although trade unions increased in membership after the New Deal legislation, industrial unions grew relatively more rapidly; they likewise sought new fields of conquest. The A.F. of L., however, was reluctant to grant industrial charters to existing or new unions in the automotive and other mass-production industries. It resisted such forms of organization; it recognized the paper claims of older and inactive trade unions; it sought to

mold the new unions along the traditional lines of craft organization into small, specialized unions of an outmoded character.

These issues had been discussed at length in committees and conventions of the A.F. of L. The "old guard" refused to shift its position; it held tenaciously its strongly entrenched inner citadel. The 1935 Convention of the A.F. of L. was featured by bitter contests of words and fists; it displayed slight alteration of attitude and produced little change of policy. Consequently, a self-appointed Committee for Industrial Organization got together in Washington later that same year. It originally consisted of eight members, who were bitterly disappointed at the failure of the A.F. of L. to embrace industrial unionism and who were prepared to "go it alone" with their own industrial unions as a nucleus. Conspicuous among these leaders of the new labor movement were John L. Lewis of the United Mine Workers, Sidney Hillman of the Amalgamated Clothing Workers, and David Dubinsky of the International Ladies' Garment Workers; subsequently, Mr. Lewis became president of the C.I.O. and an open rival of William Green, president of the A.F. of L.

Great and prompt success attended the efforts of the Committee for Industrial Organization. Thousands of workers, many of them hitherto unorganized, in steel mills, textile plants, and other large industries formed active unions and affiliated with the new organization. These successes of the C.I.O. embittered the A.F. of L. but failed to enlighten it. This dualism within the American labor movement failed to heal; it broke into an open rupture one year after its first appearance.

The great schism is commonly dated in 1936, because in that year the Executive Council of the A.F. of L. suspended most of the original members of the C.I.O. Instead of impeding its future progress, however, this action seemed to stimulate the further and faster growth of the suspended organization. Before the end of the next year, 1937, there were over thirty important national unions affiliated with the C.I.O., which even then claimed a membership of over 3 million. With the achievement of independence and the prospect of permanent status, the Committee on Industrial Organization became the Congress of Industrial Organizations.

The C.I.O., in 1941, included forty-one national or international member unions. It had a total membership of approximately 5,000,000 of which about 600,000 were in the United Mine Workers, about 400,000 in the United Automobile Workers and about 500,000 in the Steel Workers Organization Committee. In short, the C.I.O. was about as strong numerically as the A.F. of L.

c. Organization of the Congress of Industrial Organizations.—The structure of the C.I.O. is dissimilar to that of the A.F. of L. in that the

C.I.O. is organized vertically into larger but more heterogeneous units on an industrial basis, whereas the A.F. of L. is organized horizontally into smaller but more homogeneous units on a craft basis. On the other hand, the C.I.O. is similar to the A.F. of L. in that each is a loose confederation of semi-independent and sovereign national unions. Because an industry is larger than a craft, there are only forty-one constituent unions of the C.I.O., in contrast to over a hundred constituent unions of the A.F. of L., despite the fact that individual membership in the two organizations is approximately the same. The Executive Board of the C.I.O., like the Executive Council of the A.F. of L., manages routine business between annual conventions; it controls union councils or federations and local industrial unions, subject to the general policies laid down by the convention, to which appeal can be made.

Affiliations in the new organization, like those in the older body, are tenuous and often temporary. The composition and character of each are constantly shifting. New unions may be added, and member unions may secede. At least one union which originally left the A.F. of L. for the C.I.O. has returned to the parent body. It is equally true, however, that other unions left the A.F. of L. for the C.I.O. after the signal success of the latter organization.

d. Policies.—The activities of the C.I.O. differ somewhat from those of the A.F. of L., just as their general attitudes and their specific constitutional provisions are at variance with each other. The C.I.O. has been more dynamic and experimental than the A.F. of L., which has been relatively more stable and conservative. For example, sit-down strikes were espoused by many industrial unions but eschewed by most craft unions. Chapter XVI, which treats the problem of industrial conflict, will trace the rise and fall of the sit-down strike. It is sufficient here to note that its most conspicuous use was in 1937 by the automobile workers in and around Detroit, most of whom had recently been organized on an industrial basis within the ranks of the C.I.O. This same group of workers subsequently replaced the sit-down strike by the slow-down strike, which has been termed a peaceful form of sabotage but which is commonly regarded as restriction of production. The following chapter will explain how relatively conservative trade unionists advocate restricting production as a counterweapon against speeding up workers.

It is true, in general, that the C.I.O. is more radical than the A.F. of L. It is not accurate, however, to call it a revolutionary organization or to regard it as similar to the Industrial Workers of the World. The C.I.O. accepts the present economic system and does not seek the overthrow of capitalism or the destruction of our representative form of government. Like the A.F. of L., its objectives are higher wages, shorter

hours, and better working conditions. Unlike the A.F. of L., however, it has adopted a broader form of organization; it has conducted a more vigorous campaign of organization; it has gone into the mass-production industries; it has accepted the unskilled and the semiskilled workers; and, finally, it has utilized new weapons of collective bargaining.

e. Rivalry.—The A.F. of L. and the C.I.O. are both complementary and competitive. In general, they have worked in different ways in different areas. Nevertheless, they have overlapped in organization and conflicted in policy. The C.I.O. has not confined its organizational efforts to industrial unions; it has accepted some craft unions whose relationships to the A.F. of L. were natural but unhappy. Moreover, not all member unions of the A.F. of L. have been conservative in their policies. Rackets have been common and coercion has been frequent among some of the less respectable unions of the older and more traditional labor organization. Although some C.I.O. unions have been reckless and irresponsible, the trade agreements of certain C.I.O. unions have been honestly negotiated and faithfully kept.

In short, all generalizations are dangerous beyond the obvious observation that the labor movement, like almost all social and political organizations, has been opportunistic and particularistic. Policies have varied from time to time and from place to place. There has been neither unity nor consistency within the labor movement. There is the present schism between the A.F. of L. and the C.I.O., which has increased in bitterness with the years immediately following the suspension or secession. Outlaw strikes have been frequent within both organizations.

Since the open break in 1936 the general policy of each body has been one of "catch as catch can." In some occupations there are two rival unions, one affiliated with the A.F. of L. and the other with the C.I.O. The maritime industry is a notorious example; there is a C.I.O. longshoremen's union and an A.F. of L. seamen's union on the Pacific Coast and the reverse along the Atlantic Coast. The C.I.O. has local industrial unions among truck drivers, printers, and hotel and restaurant employees, despite the fact that the A.F. of L. has national unions in these same occupations.

Feuds have been frequent, not only between the A.F. of L. and the C.I.O., but also between their constituent unions about lines of jurisdiction and between local and national unions about lines of authority. Personal animosities among the men who lead labor have weakened the general movement and increased the disunity. There was first the interunion battle between William Green, president of the A.F. of L., and John L. Lewis, president of the C.I.O. It was followed by the intraunion skirmish between Mr. Lewis and Mr. Murray, who replaced him as president of the C.I.O., while Mr. Lewis retained his post as

president of the United Mine Workers, its most powerful constituent union, which, under his leadership, later seceded from it.

12. Quasi-public Industrial Unionism and Independent Trade Unionism.—The older independent trade unionism emerged in England during the industrial revolution. It was transplanted to this country a century ago, where different economic and political conditions modified its subsequent development. The new quasi-public industrial unionism originated in Europe during the period of the First World War, when labor organizations in many countries secured additional legal recognitions.

Development abroad toward improved economic planning and increased public control accelerated labor organization but modified its character. Quasi-public unionism developed in various countries of Continental Europe, particularly in Fascist Italy, Nazi Germany, and Soviet Russia. Even Great Britain, the home of independent trade unionism, moved more conservatively in the same direction.

On the other hand, the United States was going through a series of technological changes, known as the "new industrial revolution." Increased industrial productivity and unprecedented economic prosperity continued until the great crash in 1929. Meanwhile, our labor movement differed from that in Europe and from that of our own previous history. Quasi-public unionism of the European variety failed to appear, and increased vitality of conservative American trade unionism failed to reappear. Instead, the period was characterized by a phenomenal growth of company unions, employee ownership of stock, and various welfare projects. In other words, the American labor movement was temporarily obscured by, or under the direction of, the employer. When the history of the labor movement during this period is written at some future date, management can point to the prosperity before 1929 and labor to the depression after 1929. The socialist, however, will record the failure of rugged individualism of both parties and the inadequacy of company unionism and trade unionism alike.

Increased governmental control of business and the attempt to organize industries into great trade associations, important parts of the recovery program of 1933, if revived, may produce parallel changes in the American labor movement. It has been suggested that the labor organization of the future, like industry itself, will be large scale in scope and quasi-public in character. Industrial unions seem to be a natural development in an era of mass production. They may assume both social responsibility and political aspirations, along with increased economic power and improved legal status. Independent trade unionism may find it increasingly difficult to maintain its "splendid isolation" in a semiplanned and partially controlled economy. Old weapons of

collective bargaining may become as obsolete as the bow and arrow in future industrial conflicts or as reprehensible as poison gas in the industrial peace of the interdependent society of tomorrow.

13. Development of Employers' Associations.—The growth of labor organizations has been paralleled by the development of employers' associations. The practices and policies of the one have been opposed by those of the other. The forms of employers' associations are as varied as those of labor organizations. Indeed, the one depends on the other; both are influenced by the nature of the industry. Although the membership of labor organizations is greater than that of employers' associations, the financial reserves of the latter have been larger.

The development of employers' associations came later than that of labor organizations, but germs of such associations are as old as those of trade unions. In the days of the medieval guilds, there were associations of master craftsmen, although there was no such gulf between labor and capital as existed after the industrial revolution.

Although organizations of employers functioned in colonial cities to oppose the unlawful conspiracies of workers to increase wages and to decrease hours, it was not until after the industrialization of this country, following the War between the States, that associations of employers, like organizations of workers, achieved national dimensions. The first national association of manufacturers of a particular industry, the United States Potters' Association, was organized in 1875. The Stove Founders' National Defense Association, organized in 1886, began several years later to negotiate agreements with the Iron Molders' Union of North America. Other national associations of employers were formed in the closing years of the nineteenth century and in the opening years of the twentieth century.

The sympathetic strike called for stronger associations of employers. The National Association of Manufacturers, organized in 1895, was significant as the first national organization of employers open to all manufacturing industries. Labor policies formed an important part of the original program of this association; they still continue to do so. The American Antiboycott Association, organized under that name in 1902, was later termed the League for Industrial Rights. The National Council for Industrial Defense was formed in 1907 for the avowed purpose of opposing such labor legislation in Congress as it deemed undesirable. State associations of manufacturers also have been organized in important industrial states to keep a watchful eye on the course of labor legislation within their respective borders.

The National Industrial Conference Board was created in 1916 for the collection of information, rather than the formulation of policies. It seeks to get the facts about current industrial problems, which it

then analyzes for employers and the general public. The National Industrial Conference Board is a research organization of employers; it is not definitely or directly a propagandist organization.

Chambers of commerce also should be mentioned in this connection, for the varied work of these local, city, state, and national bodies includes labor policies as well as business practices.

With the close of the First World War a renewed impetus was given to the organization of employers. In the ensuing years of depression and unemployment, an effort was made to win back some of the gains which organized labor had achieved during the war. A survey by the National Industrial Conference Board in 1921 claimed the existence of several thousand employers' associations with a total membership of millions.

The National Industrial Recovery Act of 1933 required the formation, or permitted the imposition, of industrial codes. It assumed the existence or formation of a trade association or guild of employers within a particular industry. Such an association of employers, illustrated by the cotton-textile manufacturers, the bituminous-coal operators, or the Steel Institute, was to work out a code of fair trade practices for its own industry. Contrary to the provisions of the Sherman Act, such an association of employers might operate as a combination in restraint of trade by limiting production and thus indirectly regulating prices. From a labor-management point of view, wage rates, hours of labor, and working conditions played an important part in these industrial codes. If this great industrial experiment should be revived in a similar but more permanent form, associations of employers will play a still more important role in the planned economy of the future than in the individualistic society of the past.

14. Policies of Employers' Associations.—There is nothing inherently wrong in the organization of either capital or labor; it is a frank recognition of group differences along economic lines. Effective collective bargaining requires such organization by both parties. But if industrial conflict results, militant methods of capital and labor jeopardize the peaceful settlement of their differences. The economic weapons used by both sides may be socially undesirable and economically unproductive.

Even before the industrial codes of 1933, some associations of employers recognized collective bargaining on the part of their workers. Indeed, a few were organized primarily for the purpose of making agreements as to wages, hours, and various industrial issues. Other associations of employers, sometimes known as the "militant" type, opposed attempts at collective bargaining outside company unions.

Most associations of employers, however, are somewhere between these two extremes. They have been as opportunistic in their policies

as labor organizations. Forced to recognize collective bargaining in principle, they have seized every opportunity to weaken those practices of labor which make collective bargaining effective. Although opposed to walking delegates, now known as "business agents," of unions, they have employed their own legal counsel.

Most associations of employers condemn restriction of output by employees but condone regulation of output by employers. Management should not be hampered by limitation of apprentices nor be prevented from introducing laborsaving devices. It should be permitted to utilize whatever methods of industrial production and remuneration seem best.

The open shop has been a leading issue of associations of employers who have resented any compromise on the right to hire and fire whom they please and to run their own business without outside interference. Although tacitly retaining the right to use the lockout, the injunction, and the black list, associations of employers have opposed the strike, the boycott, and the unfair list of labor. Much has been said and written about the personal liberty of employers and the sanctity of contract.

Abundant funds have been spent in the crusade against the closed shop. Financial, moral, and legal support has been extended to employers facing labor crises. Spy systems have been used to detect sources of industrial unrest and threatened property damage. Adequate employment lists of tractable workers have been kept by central agencies, whence groups of laborers could be shipped hurriedly as strikebreakers to the place of need.

15. Wage Bargaining and Price Bargaining.—The economic differences between the collective bargaining of business corporations and trade unions have been expressed as follows:

> The modern corporation has taken over both of the bargaining functions of the masters of old: the *price bargain* and the *wage bargain.* In the first the corporation performs the *merchant* function, and its object is to get as high prices as possible from the consumer. In the second it performs the *employer* function, and its object is to give as low wages as possible to laborers.
>
> Collective action by capital has not stopped with the corporation. The corporations themselves have become members of associations. In these associations it has generally been found advantageous to separate the two bargaining functions. *Manufacturers' associations*, "pools," and "trusts" are formed to deal with the price of products to consumers. *Employers' associations* deal with the wages paid to labor. Practically the same individuals may compose these associations; but their functions are totally different.[1]

[1] COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," rev. ed., p. 100, 1927.

The legal significance of this important economic distinction follows:

> That capital and labor should be treated equally is a proposition fundamental to American law. But the dual bargaining functions of capital must be distinguished. The *price bargain* is something very distinct from the *wage bargain.* Trade unions do not deal with consumers at all. Their function is to offset the advantage the employer enjoys in bargaining about wages with the individual laborer. Equal protection of the law does not consist in treating a trade union like a *manufacturers' association* but in treating it like an *employers' association.* This is not class legislation but sound classification.[1]

It would seem, then, that trade unions should be regarded economically and legally as comparable with employers' associations, rather than as analogous to manufacturers' organizations. Neither labor organizations nor employers' associations, as such, should be confused with combinations in restraint of trade.

Although the state may object to certain weapons as illegal, and to particular policies as uneconomic, government should not restrict the right of either side to organize, even though it may well be forced to regulate methods of collective bargaining. Social justice is advanced by minimizing glaring differences in bargaining power and facilitating the organization of the weaker party. Such was the political philosophy which underlay the legalization of collective bargaining in 1933 and 1935, as described in the preceding chapter. Forms and weapons of collective bargaining will be treated in the following two chapters.

Summary.—Labor organizations may be classified according to their form of organization, *i.e.*, as labor unions, industrial unions, or trade unions, and also according to their functions and methods, *e.g.*, as conservative or radical unions.

Trade unionism is the oldest form of labor organization in the United States. It was temporarily eclipsed during the zenith of labor unionism by the swift but short ascendancy of the Knights of Labor. It was subsequently threatened by the Industrial Workers of the World, a revolutionary organization which preached class struggle and practiced sabotage.

The acme of trade unionism in this country was reached shortly after the First World War, when all trade unions had a combined membership of approximately 5 million and when the American Federation of Labor alone numbered 4 million members. Trade unionism then had no rival.

The 1920's witnessed the development of company unionism. The 1930's saw the legalization of collective bargaining, an increase in union membership of various types, the revival of industrial unionism, and a split in the independent labor movement.

[1] *Ibid.*, p. 128.

National federations of trade unions existed in the United States even before the Civil War. The American Federation of Labor was organized in 1881 and reorganized in 1886. It is a loose confederation of numerous sovereign unions, organized horizontally on a craft or trade basis. It practices collective negotiation for higher wages and shorter hours; it seeks the closed or union shop in industry; it relies on such weapons of collective bargaining as strikes and boycotts.

The Congress of Industrial Organizations, originally the Committee on Industrial Organization, emerged from the split within the American Federation of Labor in 1936. It is a confederation of a smaller number of larger unions, organized vertically on an industrial basis. Although the Congress of Industrial Organizations is more radical than the American Federation, it is not a revolutionary organization, like its predecessor, the Industrial Workers of the World. The C.I.O. condoned the sit-down strike of its member unions, but it did not advocate the overthrow of the capitalistic system.

Organizations of workers have been paralleled by employers' associations, both within a particular industry, as, for example, the Steel Institute, and among industries, as, for illustration, the National Association of Manufacturers. Employers' associations have urged the adoption or retention of the open shop; they have opposed such practices of collective bargaining as restriction of production and limitation of apprentices.

Questions for Discussion

1. Outline different kinds of labor organizations. Indicate differences, similarities, and respective advantages.
2. Discuss the aims and policies of the Knights of Labor.
3. Trace the growth of trade unionism in the United States, indicating periods of progress and of stagnation.
4. Contrast the American Federation of Labor with the Industrial Workers of the World in regard to structure, aims, and policies.
5. Compare the American Federation of Labor with the Congress of Industrial Organizations in similar respects.
6. What industries are highly organized and which are not? Suggest reasons in each case.
7. Outline various types of employers' associations. Indicate their chief objectives and policies.
8. Distinguish merchant functions from employer functions. Illustrate and show significance.

Topics for Investigation

1. Labor movement in America before the Civil War.
2. Labor movements in Europe within recent years or within some particular country.
3. Organization and constitution of some union with which you are familiar or in which you are interested.

4. Industrial Workers of the World during the First World War.
5. Labor organizations and the business cycle.
6. Effects on union membership and policy of the legalization of collective bargaining.
7. Origin and progress of the Congress of Industrial Organizations.
8. Leadership in the American labor movement.

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CHAPTER XV

AIMS AND POLICIES OF UNIONS

ECONOMIC BASIS OF COLLECTIVE BARGAINING

1. Spheres of Legislation and of Collective Bargaining.—Labor organizations were primarily concerned with wages, hours of work, and rights of collective bargaining. They seemed singularly indifferent to general working conditions, especially those of unorganized groups. It was state legislation, rather than trade unionism, which attacked such maladjustments as child labor and insanitary living conditions. Of recent years, however, labor organizations have become vitally interested in these broader problems reaching beyond their own immediate interests and particular groups.

The raising or maintaining of wages, however, was attempted earlier by labor organization than by state legislation. This is particularly true of adult male workers, with whose wages government has been even more reluctant to interfere than with their hours and working conditions. The existence of labor organizations, at least among skilled adult male industrial workers, has made the extension of the police power of the state not so necessary in their case as in that of women and children, whose inferior bargaining power has placed them in even greater danger of exploitation. The freedom of contract of adult male workers, especially in the matter of wage determination, was not challenged successfully in this country by legislation until recent years.

Government formerly interfered mainly to prevent fraud in the payment of wages. States legislated frequently as to the manner of wage payment but rarely as to the rate of wages or the amount of earnings. For example, laws have been passed to make illegal the payment of wages in scrip instead of cash. If the worker were paid in scrip or company labor checks, he might be forced to buy at the company store; profiteering by employers and exploiting of employees might ensue. States have legislated also against the withholding of wages from workers. Employers have been compelled to pay wages promptly and regularly. Delay in remuneration would inflict severe hardship on those workers without a reserve of past savings on which to live. It might force employees to become hopelessly in debt, sometimes at ruinously high rates of interest and in unjust amounts. If carried to the extreme and accompanied by an extension of credit by the company store, a condition of peonage could result. By the bonds of chronic indebtedness and the threat of imprison-

ment for vagrancy, if escape were sought by flight, the Mexican peon and the southern Negro have sometimes been held to enforced labor and involuntary servitude.

2. Necessity of Collective Bargaining.—Collective bargaining by organized labor results from the disadvantages of the isolated worker in individual bargaining. Although labor enjoys freedom of contract and equality before the law, there are economic differences between the two parties to the wage contract, which impair the bargaining power of the worker.

Among the chief disadvantages of the individual worker in making a wage bargain are the following. Labor is a service and, therefore, similar in nature to a perishable commodity. Time spent in finding employment represents a loss of working hours and, hence, of wages. The proffered wage may be lower than the competitive rate of wages for a given type of work, but its refusal may mean unemployment. Loss of wages to the worker is frequently more serious than loss of profits to his employer. The laborer has no great surplus of past savings on which he can draw in a protracted period of unemployment.

Another disadvantage of the unorganized worker is his inferior knowledge of general conditions of employment, as compared with that of the employer or with that of the salaried secretary of a labor organization. He does not know where to go in order to better his condition. Moreover, it is not easy for the worker and his family to move quickly from place to place under the lure of a slight wage differential. The immobility of labor puts it at a competitive disadvantage. It results in the existence of labor reserves, discussed in the chapter on unemployment.

A final disadvantage of the worker is the frequent existence of understandings among large employers of labor as to wages and other conditions of employment. A gentlemen's agreement may prevent them from competing actively for workers and thus forcing wages up to their natural or competitive level. Associations of employers have been reluctant to "spoil the labor market." There has been some very successful collective bargaining among employers.

3. Primary Objectives of Collective Bargaining.—The chief purpose of labor organizations is the raising of wages or the maintaining of customary standards of living against a rising price level. Closely associated with this objective of higher wages is the desire of the workers for shorter hours and increased leisure. These two primary aims of collective bargaining have been fused in the following slogan of the American Federation of Labor:

> Whether you work by the piece or work by the day
> Decreasing the hours increases the pay.

The securing of these two primary objectives of collective bargaining is conditioned by the strength of organized labor. Hence another primary aim of trade unionism is the maintenance of the right and power of collective bargaining. Trade unions constantly seek to keep and to strengthen their own prerogatives and weapons. They are bitterly opposed to any practices or restrictions which might sap the effectiveness of collective bargaining or weaken their own organizations.

4. Secondary Functions of Labor Organizations.—Trade unions sometimes maintain insurance programs for the numerous hazards which their members constantly face. Often they are affiliated with fraternal benefit associations. Labor organizations also serve as employment bureaus for their members; they keep valuable records of unemployment.

Some labor organizations perform important educational work. Periodicals are published and forums are conducted. Lectures may be given and courses conducted in labor economics. Current events of general interest or of especial significance to workers may be discussed. Business meetings may be held which give practice in public speaking and familiarity with parliamentary procedure.

A trade union or a local federation of labor may become a social center for its members and their families. If the organization is large and prosperous, headquarters may be maintained in a commodious and convenient building. Meeting rooms, reading rooms, recreation rooms, and numerous other pleasant club features may be developed. These recreational features, however, are often provided by an affiliated fraternal organization.

5. Interpretations of Collective Bargaining.—Collective bargaining, or, to use a better term, collective negotiation may be defined as agreements or disagreements reached between organized groups instead of between unorganized individuals. It is industrial democracy in contrast to industrial autocracy and in lieu of industrial anarchy.

As most groups are too large to permit pure democracy of the town-meeting type, collective bargaining must function as representative democracy. It is axiomatic that democracy exists only when those represented are permitted to choose their own representatives. The secret ballot has come into existence to prevent intimidation at the polls. It is equally essential that the workers be permitted to bargain collectively through representatives of their own choosing. It is similarly necessary that they use the secret ballot to choose between individuals as their representatives and to express their preferences for one labor organization over another.

As collective bargaining represents negotiations between groups instead of between individuals, it is imperative that both sides be organized effectively. Otherwise, the situation constitutes merely fictitious or

one-sided collective bargaining. Fair collective bargaining may be illustrated by joint conferences and trade agreements between parties of nearly equal bargaining power. Their aim is the reduction of industrial differences to peaceful discussion with the ultimate formation of a compromise which becomes the accepted usage of an industry or occupation.

It is easy to agree on the desirability of collective bargaining and, indeed, on its actual necessity. But to interpret collective bargaining in terms of various practices is very difficult. Thus the labor delegation withdrew from President Wilson's postwar conference between capital and labor, because of the failure to come out from behind platitudes in the discussion of collective bargaining. The workers insisted that collective bargaining be defined more specifically as inclusive of certain practices, such as the closed shop, which labor regarded as essential to it. Although all members of the conference were willing to endorse the general principle of collective bargaining, representatives of the employers were not willing to accept these concrete and partisan interpretations of collective bargaining.

The same problem of interpreting the general principle of collective bargaining in terms of specific practices and existing organizations reappeared in the recovery program of President Franklin D. Roosevelt. The administration affirmed the government's position in favor of the principle of collective bargaining but refused to accept the closed shop as its proper and universal expression. Indeed, the general inference was in favor of the nondiscriminatory open shop. On the other hand, the steel industry was forbidden to write company unionism into its industrial code as an official interpretation of the general principle of collective bargaining.

This issue of the open versus the closed shop, like Banquo's ghost, continued to make its unwelcome reappearance from time to time at capital-labor conferences which otherwise might have been love feasts. President Roosevelt's National Defense Mediation Board, like President Wilson's labor conference, came to naught when labor representatives again withdrew because of failure to endorse the closed shop and to include this particular form of collective bargaining as an essential part of the acceptable definition. The general principle of collective bargaining had already been written into Federal law. Its interpretation in terms of specific practices remained a matter of dispute and discussion.

Organized labor has consistently and insistently attempted to inject such concepts as the walking delegate, as well as the closed shop, into its interpretation of collective bargaining. It has been equally adamant in its refusal to regard employee representation or company unionism as true or fair collective bargaining. It is our present problem to analyze various forms and different weapons of collective bargaining; we shall

seek to discover, if possible, which are essential to collective bargaining and which are socially desirable.

6. Weapons of Collective Bargaining.—The various weapons of collective bargaining may be classified as those of employers or of employees, as those of consumers or of producers, as peaceful or militant practices, as radical or conservative weapons, as legal or illegal practices, as open or secret weapons, as economic or wasteful methods, and, finally, as socially desirable or socially undesirable practices of collective bargaining.

Strikes, for example, are militant weapons of collective bargaining, used by employees organized as producers. The union label is a peaceful and socially desirable weapon of employees organized as consumers. Sabotage is a secret, uneconomic, and socially undesirable practice resorted to by some radical labor organizations; it disrupts production and destroys property. The black list was a secret but legal weapon of employers. The injunction is a legal weapon, open to both employees and employers, but used more generally and effectively by employers.

7. Open and Closed Shop.—The open shop is one in which both union and nonunion men may be employed, but many so-called "open shops" have been closed to union men, *i.e.*, the employer would frankly or secretly employ only nonunion men. Certain employers have professed to maintain the open shop, but a careful inspection revealed that union men were not employed at all or only when nonunion men were not available; union men were discriminated against in dismissals, promotions, and other matters. The open shop which was free from any discrimination against union men was rare. This has been one of the strongest arguments against it, *viz.*, that the so-called "open shop" was frequently a closed shop, *i.e.*, closed to union members, sympathizers, and organizers. For these reasons the open shop has often been called a "nonunion shop."

The closed shop is one which employs only union members. Hence it has been termed a "union shop." The closed shop may be operated by either the open or closed union.

In the closed shop with the open union, the employer may hire whom he pleases; but if he employs a nonunion man, the latter must join the union after he begins work. The closed shop with the open union is known as the "preferential union shop."

In the closed shop with the closed union, the employer may employ only men who are members of unions. Management's power to discharge a workman, as well as its power to hire him, is limited. The causes of the discharge must be passed on by union officials, or other organized workers will walk out. Efficient workers who lose their standing in the union must be discharged. Less efficient workmen who have union membership and seniority rights must be hired or advanced. The closed shop with

the closed union is a labor monopoly which is difficult to defend. It is an autocracy of labor which discriminates against capable workers who are not members of unions, entrance into which is sometimes difficult and often expensive.

The antiunion shop, now illegal, was equally discriminatory, in that it forced workers to give up their right of union membership. Many nonunion shops were openly or secretly hostile to the very principle of collective bargaining. Industrial espionage was used by some employers to eliminate labor organizers and to prevent union organization.

8. Arguments for and against the Open Shop.—Associations of manufacturers and other employers' organizations have conducted a national campaign in behalf of the open shop. Organized labor has been equally insistent on the closed shop. The literature of both sides has been propagandist and emotional, rather than objective and unbiased. Every economic problem, however, has its two sides; any program has both advantages and disadvantages.

Employers regard the closed shop as un-American, monopolistic, and unfair to both industry and unorganized labor. They charge that the public welfare is endangered by the closed shop. They indict it as the cause of many economic ills and of much social injustice. The chief contention of employers is that the closed shop prevents management from running its own business without outside interference. Employees claim that the closed shop reduces all workers to the dead level of mediocrity under union control of output, wages, and working conditions. It deprives unorganized workers of their "constitutional right of freedom of contract" to sell their labor as they see fit. The closed shop, they allege, raises the costs of manufacture and hence the prices of goods to consumers. It contributes directly and indirectly to unemployment.

Organized labor replies that the open shop exists only in name and that most open shops are really antiunion shops. The movement in favor of the open shop is merely a disguised attack upon organized labor. The closed shop with the open union is regarded by its advocates as democratic; the open shop or nonunion shop is viewed as autocratic. Employees, as well as employers, should have a voice in the determination of industrial conditions and a vote in the selection of their industrial representatives.

Labor leaders contend that the closed shop is vital to effective collective bargaining, without which the exploitation of workers would result. If modern industry standardizes processes and products, unions likewise should standardize conditions of employment. If business follows the one-price system for its commodities, labor should do the same for its services. If large employers seek through trade associations concerted action against substandard and "chiseling" firms, union labor should

likewise seek through the closed shop similar protection against submarginal and unorganized workers. Many advocates of the closed shop justify coercion on unorganized laborers to join unions. The nonunion man who works beside a union man receives the benefits of collective bargaining in wages, hours, and working conditions. Why should he not be compelled to join the union and assume some of its burdens?

9. Checkoff.—Under this system management performs some of the administrative work of the union. Employers deduct union dues and fines from the wages of their employees as directed by officials of the entrenched union; these funds are subsequently turned over to the business agent of that union. The checkoff system rarely exists outside the closed or union shop, although the latter frequently exists without the former. The checkoff was common in the highly organized coal mines of Pennsylvania.

10. Walking Delegates or Business Agents.—The right of collective bargaining is interpreted by labor to include not only the closed shop, but also the "walking delegate." These two issues are closely intertwined.

There were formerly many employers who avowed their sincere readiness to meet with any representatives chosen from among their own employees, but who refused to have dealings with individuals outside their own plants. They repudiated professional labor leaders, whom they called "walking delegates" but whom the workers now prefer to term "business agents." Employers claimed that walking delegates went from industry to industry to arouse discontent, to organize unions, and to induce strikes or walkouts of the workers.

Labor leaders point out in reply that industry itself creates social unrest by the exploitation of unorganized workers. It is true that labor leaders do organize unions, which give to the workers a medium through which to express their grievances and a means by which to right them. Strike duty is merely one of the functions of labor leaders, who sometimes settle or prevent, rather than cause, industrial conflicts. Workers are not sufficiently trained or informed to do such work for themselves. If employers and associations of employers can hire legal counsel and management experts, why should not employees exercise the same privilege?

Few employees would dare to organize their fellow workers or to push their claims against those of management. To do so would merely cultivate an immediate or a deferred dismissal. It is easy for an employer to find an excuse for firing an employee who has rendered himself obnoxious by his activities in collective bargaining. Moreover, tacit agreements among employers may render it difficult for the discharged worker to obtain employment elsewhere. On the other hand, the hope of

advancement is often a sufficient temptation to induce the plant representative of the employees to sell out their interests to the employer; hence the necessity of outside and independent labor leaders.

11. Company Unions.—Company unions are organizations of the workers of one plant or business corporation, whose employees elect representatives to treat with their employers as to wages, hours, and general working conditions. Company unions are not a part of the organized labor movement, and a description of their plans of organization will be given in Chap. XIX.

Company unions are generally superimposed from above by management. Unlike trade unions or industrial unions, they rarely grow up naturally from below among the workers themselves. Most company unions have been organized on the initiative of the employer or fostered by the personnel department of the company. They are frequently accompanied by profit-sharing schemes, welfare projects, and pension systems. The general aims of company unions are the development of a closer cooperation between men and management and the production of industrial good will as a valuable business asset.

Company unions have developed apart from, and often in conflict with, trade unions and industrial unions. In most cases, members of company unions are not members of trade unions. In some cases, workers formerly were prevented from becoming members of trade unions while in the employment of the firm which maintained such a company union. Most company unions were open-shop organizations, which meant that they were frankly or secretly hostile to trade unions. At best, company unions were competitive organizations seeking membership among workers who might otherwise have joined trade or industrial unions in their respective occupations. Consequently, company unions have been indicted as sham organizations of labor under the control of the employer instead of the workers. They represent industrial paternalism buttressed by welfare projects of management. They repudiate industrial democracy beset by difficulties of organization and dangers of conflict. It is clear that company unions are of the workers but not by the workers; it is controversial to what extent they are for the workers.

12. Essentials of Effective Collective Bargaining.—Although collective bargaining may be interpreted as inclusive of all group negotiations, such a broad definition means little. The first essential of effective collective bargaining is the right to belong to a union, which can secure the support of the entire organized labor movement.

Effective collective bargaining involves also the employment of professional labor leaders, not the utilization of plant employees. Representatives of the employees in a company union may be bribed by the prospect of promotion to sell out the interests of their fellow workers, or

they may be prevented by the possibility of discharge from pressing too far their own demands. Unlike Oliver Twist, the employee representative will not offend the management of his own company by daring to ask for more for himself and his fellow industrial orphans.

Finally, company unions are defenseless except for the rather impotent weapon of public opinion, which management's department of public relations can use even more effectively than the workers. Company unions must fight their industrial battles without such weapons as the strike or the threat to strike. The employer may be fair, reasonable, and even sympathetic, but, if not, there is little possibility of coercing him by utilization of some of the common but effective weapons of industrial warfare. For these reasons, employee representation through company unions cannot be regarded as an effective instrument of collective bargaining.

13. Yellow-dog Contracts.—Although it might be inexpedient to exercise the power of discharge in an autocratic fashion, the employer was formerly within his legal right in hiring and firing whom he pleased, when he pleased. Hence management might refuse to employ a union worker or might discharge one merely because of union membership.

a. Nature and Significance.—In order to prevent an infiltration of union members, some employers formerly required of each applicant for work a written statement that he was not a union member. In order to guard against his subsequent affiliation with an independent union, management sometimes made a prior condition of employment the signing of an agreement by every prospective worker that he would not become a member of a trade union or of other specified labor organizations so long as he remained in that employment. Such agreements, frequently stigmatized as "yellow-dog" contracts, were bitterly opposed by trade unionists. Although company unions sometimes competed fairly with trade unions for membership, they were often forced on employees by the imposition of yellow-dog contracts. The Interborough Rapid Transit Company of New York, for illustration, maintained a company union known as the "Brotherhood of Interborough Rapid Transit Company Employees." Each new employee formerly was forced to join this union and to agree not to join an outside or independent union while in this employment.

Common law permitted legal action against a third person who persuaded one of the two parties to a contract to break that agreement without justification or legal excuse. Hence it was illegal to unionize workers under "voluntary" contracts giving up the right of union membership as a condition of employment. The Supreme Court[1] once held that an injunction might be issued forbidding attempts to organize

[1] *Hitchman Coal and Coke Company v. Mitchell*, 245 U.S. 229, 1917.

employees who had signed such "voluntary agreements." Thus yellow-dog contracts were regarded as legal, and the right of injunction existed against outside attempts to unionize the signers of such agreements.

b. Legal Restraints.—Several states passed laws prohibiting employers from denying to their employees the right of membership in trade unions. Employers were sometimes forbidden by law to discharge those employees who belonged to independent labor organizations merely because of their union membership. Most of these state laws, however, were unconstitutional or unenforceable.

The national Congress in 1932 passed the Norris-La Guardia Act, which forbade any Federal court from issuing an injunction sustaining yellow-dog contracts or from punishing any violation of them by contempt-of-court procedure. The National Industrial Recovery Act of 1933 forbade coercion of employees by employers in the matter of belonging to or refraining from joining independent labor organizations. As this act was declared unconstitutional, the same general principle was embodied in the National Labor Relations Act of 1935, which, as we have seen, guaranteed to workers the right of collective bargaining through representatives of their own choosing, which forbade intimidation or enticement of employees by employers to join company unions, and which set up machinery to secure fair elections by secret ballot of the labor organization to represent the workers in a particular plant or industry.

14. White Lists and Black Lists. *a. Nature and Purpose.*—Employers sometimes maintained their own employment bureaus and prepared white lists of good workers. The white list enumerated those employees who had been faithful and tractable, as well as efficient. Such workers were given preference in employment.

Associations of employers also prepared for circulation among themselves black lists of those employees who took an active part in labor organizations and in industrial disputes. A tacit agreement among employers prevented the reemployment of such workers in other plants.

The black list has been defined as a boycott of employers against the labor commodity of their employees. The fear of black-listing, like the hope of white-listing, was an effective deterrent to most employees from participation in labor agitation and industrial disputes.

b. Legality.—The old doctrine of conspiracy, so frequently used against labor organizations, did not seem to cover black-listing by employers. Although many states legislated against black-listing, such laws accomplished little, because this weapon of management was formerly within the law. Overzealous legislation by the Federal Government, like that by individual states, against black-listing was declared unconstitutional. A Federal court once ruled that an employer had the

right to keep a record of men discharged for union membership and that he might lawfully invite its inspection by other employers.[1]

This situation has been drastically altered by the National Labor Relations Act. Employers cannot now discharge employees merely because of their activity in labor organizations or because of their agitation in industrial disputes. Companies have been forced to rehire discharged workers and to reimburse them for time lost through such discharge when it was subsequently proved to be due to union activity.

15. Fair List and Union Label.—These are attempts to organize workers as consumers behind the closed shop, which organizes them as producers. The fair list and union label are weapons of employees comparable to employers' white lists. These peaceful forms of collective bargaining may be more effective than the militant weapons of strikes and lockouts. In contrast to boycotts and yellow-dog contracts, they are neither negative nor repressive.

The fair list is an enumeration by organized labor of those firms which maintain the closed shop and working conditions approved by trade unions. Their patronage therefore is requested by all friends of labor. Consumers' leagues likewise maintain lists of firms which manufacture their products under favorable working conditions. The aims of such organizations are excellent, but they are rarely realized because the average consumer will not consult a list of approved firms before making purchases. Some distinguishing mark placed conspicuously upon the salable commodity is more effective.

The union label is such a mark placed upon goods manufactured by organized labor under union standards of production. It implies living wages, reasonable hours, good working conditions, and the absence of sweated, juvenile, or convict labor. The union label originated among the cigar makers of California as a protest against the employment of cheap Chinese labor in this industry. The white label, formerly attached to cigar boxes, signified the use of white labor, but it gradually came to mean union labor. The cigar makers' union label was followed by one for hatters, one for garment workers, and, finally, by union labels for other organized trades in various states of the Union. The use of the union label spread geographically from the United States to Canada, Great Britain, and Australia.

The American Federation of Labor has striven to give publicity to union labels and to educate its members in the consumption of union-made goods. It publishes regularly these various insignia in its periodicals. The potential effectiveness of such a weapon among the millions of organized workers and their families is apparent. The courts have

[1] *Boyer v. Western Union*, 124 Federal 246, 1903.

generally upheld the legality of union labels and pointed out their similarity to corporation trademarks. Some states have passed laws designed to give especial legal sanction or protection to the use of union labels.

The Blue Eagle of the National Industrial Recovery program of 1933 was an attempt to white-list firms which complied with the new regulations. It sought to induce consumers to purchase only from them. The Blue Eagle stamped on merchandise was in imitation of the union label of workers and the trademark of manufacturers.

16. Restriction of Output. *a. Counterweapon to Pace Setting.*— Because of the fatiguing nature of modern industry, organized labor not only has reduced its hours of work but also has restricted its units of production within a given period of time. This action has been defended as a counterweapon to the employer's attempt to speed up workers or to stretch out their energy. Machinery can be geared to such a speed that the worker may be taxed continuously to his utmost exertion. Pace setting can be done also by employing some exceptionally skillful workers for the express purpose of setting a high standard of especially rapid production. Other workers on the same machine or on the same job are urged to similarly great production under threat of discharge or a cut in wages.

The most flagrant abuses of pace setting were to be found in the sweated industries. But pace setting has flourished also in some large factories where wages have been high and hours short. For example, the assembly line in automobile plants is conducive to pace setting, because each highly specialized worker must do his particular task to the tempo of the swift and steady flow of mechanized production. The stretch-out was common in textiles mills, which might increase the number of looms for which one weaver was responsible.

Organized labor has replied to pace setting by deliberately limiting the number of units of product to be completed within a specified period of time. Thus the laying of a certain number of bricks, and no more, might be considered a fair day's work in bricklaying by union workers. Weavers might similarly agree to tend so many looms and no more. Unorganized and unskilled workers likewise come to a tacit understanding among themselves about limitation of output. A new worker soon learns that he is regarded with suspicion by his fellow employees if he works so rapidly that he threatens to "kill the job."

Restriction of output has been regarded as a leveling-down process in comparison with the leveling-up process of pace setting by speeding up or stretching out workers. In the former case, the output of the poor worker is the standard of labor; but in the latter case, that of the rapid worker is the standard.

b. Aims.—Restriction of output has two chief objectives. The first aim is the protection of the worker's health against the fatiguing character of modern industry. There is much to be said on this ground in favor of a reasonable limitation of output as a necessary weapon of defense of labor against speeding up beyond average human capacity.

The second aim of restriction of output is less justifiable, for it arises from the fallacy of making work. It is thought that the rapid worker is lessening too quickly the total amount of labor and that limitation of output will spread employment over a longer period of time and will, therefore, create additional work. Both the introduction of machinery and the practice of pace setting, which is often associated with it, are viewed by workers as decreasing the "lump of labor."

Restriction of output creates additional employment only apparently, only temporarily, or only locally. Although at a given time and within one particular occupation the amount of work may be limited, this attempt to stretch out employment by a restriction of output is a selfish and shortsighted policy. Restriction of output tends to raise the price of the product, to increase costs of living, and to lower the real wages of all workers. At best, one group of workers may profit, but at the expense of those who do not practice limitation of output. If all workers practiced it, the national income would be decreased and real wages would be reduced.

In conclusion, it may be said that both inhuman pace setting by employers and ignorant output restricting by employees are mistaken economic policies. Individual capacities and particular occupations differ so greatly that any fixed pace or output may work injustice.

17. Limitation of Apprentices.—Monopolistic control over the supply and, hence, over the price of some commodities has long been practiced by capitalists. Monopolistic control over the supply of certain types of labor and, hence, regulation of wages therein has likewise been attempted by some workers. Limitation of apprentices is a similar attempt to create an artificial scarcity in the supply of a given type of labor so that its wage can be raised to or maintained at an unnaturally high level.

Both limitation of apprentices and restriction of output are as old as the medieval guilds. In an age of craftsmanship, apprenticeship was trade instruction under the personal supervision of a master worker. Limitation of the number of apprentices and extension of the period of apprenticeship were defended as necessary devices to achieve satisfactory instruction in the trade and to maintain proper standards of workmanship in the industry. Power machinery, however, caused replacement of the skilled craftsman by the semiskilled machine operator. In most large factories today, the original concept of apprenticeship is a mere fiction. Employers or their plant managers have little time, ability, or inclination

to teach new employees their trades. Where the machine has displaced the craftsman, the machine helper has replaced the apprentice. The terms "apprentice" and "journeyman" in many occupations have become mere titles of classification between the older and better paid workers and the younger and less experienced ones. The more proper terms are machine "operator" and "assistant" or "helper."

Limitation of apprentices is defended on two grounds: first, to improve work, and, second, to raise wages. In spite of the prevalence of the machine, some occupations are still done by hand. Illustrations are the building trades, including carpentry, plumbing, masonry, and bricklaying. Such work requires skill in the handicrafts which can be developed only by manual performance under personal instruction. Boys cannot effectively learn these trades if there are too many apprentices to every journeyman. Where organized labor is sufficiently strong to express itself on this point, a certain ratio of journeymen to apprentices is demanded. Although organized labor has been more interested in limiting apprentices than in lengthening apprenticeship, the highly skilled trades have sought both these aims.

The result of both a limitation of apprentices and an extension of apprenticeship is the creation of a relative scarcity of a given type of labor. Raising wages has been the real objective sought, even though improving workmanship has been the chief aim stressed.

18. Effectiveness of Collective Bargaining in Raising Wages.—How far, if at all, labor organizations can raise real wages in general is a controversial point of economics. Although collective bargaining is no longer regarded as conspiracy, it is not always so effective as is commonly supposed. Labor organizations are confronted with natural economic laws, as well as with man-made statutes. There are economic margins as well as legal limitations.

a. Upper and Lower Limits.—Theories of wages were discussed in Chap. VII. It will be remembered that the marginal-productivity theory, the bargaining theory, and the subsistence theory of wages were stressed. The wage paid for any type of labor was regarded chiefly as the result of two forces: first, the scarcity of that type of labor relative to the demand for it, and, second, the bargaining power of that particular group of workers. Collective bargaining was viewed as a device by means of which labor has sought to overcome the bargaining disadvantages of the single worker and to insure payment of the full marginal product of that type of labor. It is doubtful that collective bargaining, even by highly organized workers, can secure more than the marginal product of any type of labor. If a worker cannot produce value in commodity or service equal to his wage cost that worker will not ordinarily be employed. A group of workers may raise wages arbitrarily

to so high a level that the increased costs of production cannot be absorbed in the price of the product, particularly so if demand for the product is relatively elastic. In this event the employer may be forced to shut his plant temporarily or to go out of business permanently.

It will be remembered also from previous discussion that there is a lower physical or social limit to wages, just as there is a higher economic limit. This lower limit was originally regarded as the physical level of subsistence. It is now regarded as the social level of a minimum standard of living. If an occupation cannot pay a decent living wage it is condemned as a parasitic industry which should be put out of its misery. Society must insist on a living wage; it cannot tolerate a dying wage. If submarginal workers cannot earn a minimum wage, they should be regarded as unemployables, to be lifted out of the swift stream of economic competition and to be laid on the banks of social rehabilitation. Like broken-down and unsafe automobiles, to use a different figure of speech, submarginal workers should be ruled off the highways of economic progress in the interest of public safety and social welfare; they should not be permitted to jeopardize the wages of normal workers or to lower their planes of living. This action requires minimum-wage legislation by the state; this social philosophy lies behind such political action.

Between the upper economic limit of marginal productivity, representing profitability, and the lower legal limit of minimum-wage legislation, expressing a social standard of decent living, the factor of collective bargaining can and does affect wages.

Although some economic theorists question the ability of trade unions to raise the general level of real wages above a natural or competitive rate, as fixed by the forces of supply and demand, it does not follow that collective bargaining is futile, even if it can do no more than secure for organized labor its full marginal product. Many labor leaders contend that collective bargaining on the part of workers is necessitated by the bargaining disadvantages of individual workers. Collective bargaining prevents employers from taking advantage of the ignorance or helplessness of their workers by paying them wages below their full marginal product, as fixed at any given time and place by the economic forces of supply and demand for a particular type of labor.

b. Monopolistic Practices.—Monopoly power and bargaining strength can increase the wages of certain groups of workers, but only at the expense of other workers and the consuming public. Many labor leaders, like ordinary businessmen, are interested in the economic welfare of their own groups, rather than in a broad humanitarianism.

A trade union of sufficient power, let us repeat, can restrict the number of its members by a limitation of apprentices and thus create an artificial scarcity of that type of labor. By the use of such monopolistic

power as the closed shop, accompanied by the closed union, in which the number of apprentices is rigorously restricted, a powerful labor organization can definitely limit the supply of that type of labor. Hence it is possible to raise the wages of some particular group of workers in a manner similar to that by which certain industrial monopolies have succeeded in raising the prices of their products by an artificial restriction of the supply of those commodities.

If the wages of one labor group are raised in such fashion, the frequent result is that the prices of those products into which that labor enters are, in turn, raised. Hence costs of living for other workers are increased. Money wages must be advanced proportionately as costs of living increase, if real wages are to be maintained. Therefore, it is contended that the whole movement is one of a vicious circle. As money wages go up, prices go up, and real wages are not advanced.

If the money wages of some labor groups are advanced more rapidly than the increase in the general price level, their real wages are greater than before. But unorganized workers have not enjoyed an increase in money wages proportionate to their increase in costs of living. Hence they suffer a reduction in real wages. Thus it is contended that collective bargaining merely benefits the organized groups at the expense of the unorganized.

c. Conclusion.—Finally, let us turn to the argument from experience. It is true that the development of trade unionism since the industrial revolution has been accompanied by an increase not only of money wages, but also of real wages for labor in general and for organized labor in particular. This relationship may not necessarily be a causal one, however, for the greater wages of labor today are due to other things, such as modern technology and increased control over the forces of nature. Nevertheless, without the development of labor organizations and collective negotiation, it is very likely that labor might not have received so large a share of this greatly increased national income. Today, the economic tug of war, represented by the process of distribution, is between competitors or monopolies of more nearly equal bargaining power.

Summary.—The disadvantages of individual bargaining necessitate the development of collective bargaining. Its principal objectives have been increases in wages, decreases in hours, improvements in working conditions, and maintenance of powers of collective bargaining. In addition to these primary functions of labor organizations, there are secondary functions, such as those of education, recreation, and insurance.

Collective bargaining has been defined as group negotiation instead of negotiation by individuals. Organized labor insists that the concept

of collective bargaining should include the closed shop and many other weapons of organized labor, opposed by associations of employers.

The open shop is one in which both union and nonunion men may be employed. The closed shop, on the contrary, is one in which only union men may be employed. Although management claims that the open shop is democratic in principle, it has been antiunion in practice. Labor leaders view the closed shop or the union shop as essential to the preservation of their organizations and of the very principle of collective bargaining; they are now demanding maintenance of union membership.

Company unions are associations of the employees of particular business firms. These organizations follow the lines of management, instead of those of craft or industry. Organized labor objects to company unions on the ground that they are subservient to the employer.

Yellow-dog contracts were "voluntary agreements" of the workers not to join unions. The signing of such an agreement was sometimes made a prequisite of employment. The passage of the Norris-La Guardia Act, the National Industrial Recovery Act, and the National Labor Relations Act made such coercion and discrimination illegal.

Employers formerly compiled and circulated black lists containing names of workers active in labor organizations or industrial disputes. Black lists, like yellow-dog contracts, are now outlawed.

Counterweapons of workers are their fair lists of employers favorable to labor. Union labels are placed on products of the union shop in which high wages and good working conditions prevail. Fair lists and union labels are attempts of the workers to organize as consumers.

Unions can raise the wages of their members by such monopolistic practices as limitation of apprentices. This creates an artificial scarcity in the supply of some types of labor and thus raises their wages. Restriction of output is an attempt to stretch out employment and to lessen the strain of industry due to pace setting by employers.

Collective bargaining has often raised money wages more than real wages and the wages of organized groups at the expense of the unorganized. It has limited the field of competition, standardized working conditions, and sought to secure for each of its groups its full marginal product in wages. Collective bargaining has tended to equalize the competitive strength of the two parties to the wage bargain; it has matched monopolies of capital within those of labor.

Questions for Discussion

1. Differentiate between primary and secondary objectives of labor organizations. Illustrate each type.
2. What are some of the disadvantages of individual bargaining? Illustrate and explain.

3. Define collective bargaining. Is collective negotiation an equivalent or a preferable term?
4. What practices do you regard as essential to effective collective bargaining? Why?
5. What are company unions? Why do they not represent effective collective bargaining?
6. What was a yellow-dog contract? What makes it illegal?
7. Make out a case for or against the open shop.
8. Define and distinguish among the black list, the white list, and the fair list.
9. How does labor justify restriction of output? Criticize practice.
10. How does labor justify limitation of apprentices? Criticize device.

Topics for Investigation

1. Walking delegates or business agents: powers, duties, dangers, and accomplishments.
2. Open-shop program of employers' associations.
3. History of the union label.
4. Restriction of output in specific occupations.
5. Limitation of apprentices in particular trades.
6. Effects of recent legislation on yellow-dog contracts and black lists.

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CHAPTER XVI

LABOR DISPUTES AND WEAPONS OF COLLECTIVE BARGAINING

PROBLEMS OF INDUSTRIAL CONFLICT

1. Antecedents of Strikes.—Exploitation of the laboring masses by the privileged classes is older than recorded history. Collective resistance by organized groups of oppressed toilers was feeble and sporadic. When it did take place, it arose from sheer desperation; it was cruelly suppressed by the armed forces of those in power.

The Israelites were able to strike successfully against their Egyptian taskmasters and to walk out from the job of public construction. Although Pharaoh expressed the wish to deal directly with the people, Moses intervened as an able leader of his group in its collective negotiation. The slave insurrections of ancient Rome and the peasant revolts of medieval Europe also may be regarded as forerunners of strikes.

Before the advent of capitalism, class struggle along economic lines broke out between the military classes and the industrial masses, between rulers and the ruled, and between masters and slaves. But these forlorn struggles of enslaved and exploited workers for a freer life and a better lot cannot be called strikes. Early class struggles were often between the landed and the landless; they were chiefly agrarian, until modern industrialism introduced the machine and the factory system.

2. Early Strikes.—References to strikes among journeymen and other hired craftsmen are to be found in chronicles of the fourteenth and fifteenth centuries. The first recorded strike in America was that of the journeymen bakers of New York City in 1741 for increased wages. These bakers were tried and convicted of conspiracy but apparently not sentenced. Other sporadic illustrations of local strikes in various handicrafts can be found in the following decades. They were frequent in the troubled period before the panic of 1837.

It was not until after the Civil War, however, that the problem of strikes assumed its modern character and present importance. The first national labor dispute in the United States was the railway strike of 1877. Although the chief disturbances centered about Pittsburgh, riots were general. Interstate commerce was crippled and considerable property was destroyed; a resort was finally made to the militia.

3. Extent of Strikes.—Prior to 1881, statistics of industrial disputes were incomplete. From 1881 to 1905, however, the U.S. Bureau of

Labor Statistics attempted to compile information as to strikes and lockouts. During this quarter century, there occurred 36,757 strikes and 1,546 lockouts, or an annual average of between 1,000 and 2,000 labor disturbances.[1] Peak years were 1894, the year of the Pullman strike, and 1902, the year of the anthracite miners' strike.

The First World War and the period of reconstruction which immediately followed it were characterized by an increased number of industrial disputes. It will be remembered that this period was one of inflation and rapidly rising prices. For the period from 1916 to 1921,[2] inclusive, there were 20,062 strikes and lockouts, a yearly average of over 3,000, or about twice that for the period from 1881 to 1905. For the three years from 1917 to 1919, inclusive, the yearly average was almost 4,000. The peak year for number of strikes was 1917 and for number of workers involved was 1919.

The period of relative stability and prosperity between the minor depression of 1921 and the major depression from 1929 to 1933 saw a decided decrease in the number of industrial disturbances, as recorded by the U. S. Bureau of Labor Statistics. Thus, in 1921, there were slightly more than 2,000 strikes and lockouts, as compared with over 3,000 in each of the five preceding years (in 1917 over 4,000). In 1922, there were slightly over 1,000 strikes. Between 1923 and 1926, the annual number of labor disturbances was between 1,000 and 1,500. From 1927 to 1932, the annual number of strikes and lockouts was fewer than 1,000.

Many causes of the decrease in labor disturbances in the decade before 1933 can be cited. The period of stability and prosperity between the first two postwar depressions was characterized by increased wages and improved managerial policies. Again, the development of company unionism and the stagnation of trade unionism during this period made for industrial peace. The depression from 1929 to 1933 made strikes futile, even in the face of distressing working conditions.

Immediately following the passage in 1933 of the National Industrial Recovery Act, which legalized collective bargaining, a sharp increase in the number of industrial disputes took place. There was a tendency on the part of some employers to avoid recognition of trade unions and to circumvent or to ignore the new legislation. On the other hand, organized labor, in some cases, turned its new liberty into license by arrogant and arbitrary action. In any event, the number of strikes rose suddenly and sharply from an average annual level about the 1,000 mark to the former high levels of 2,000 or 3,000 a year. To be more exact, from Jan. 1, 1933, to Jan. 1, 1939, a period of six years, there were in the United States almost 15,000 strikes, involving over 7 million persons and result-

[1] *Twenty-first Annual Report* of U. S. Commissioner of Labor.

[2] *Monthly Labor Review*, May, 1922.

STRIKES IN THE UNITED STATES[1]

Year	Number of strikes	Workers involved	Man-days idle	Year	Number of strikes	Workers involved	Man-days idle
1917	4,450	1,227,254		1929	921	288,572	5,351,540
1918	3,353	1,239,989		1930	637	182,975	3,316,808
1919	3,630	4,160,348		1931	810	341,817	6,893,244
1920	3,411	1,463,054		1932	841	324,210	10,502,033
1921	2,385	1,099,247		1933	1,695	1,168,272	16,872,128
1922	1,112	1,612,562		1934	1,856	1,466,695	19,591,949
1923	1,553	756,584		1935	2,014	1,117,213	15,456,337
1924	1,249	654,641		1936	2,172	788,648	13,901,956
1925	1,301	428,416		1937	4,470	1,860,621	28,424,857
1926	1,035	329,592		1938	2,772	688,376	9,148,273
1927	707	329,939	26,218,628	1939	2,613	1,170,962	17,812,219
1928	604	314,210	12,631,863	1940	2,508	576,988	6,700,872

[1] U.S. Department of Labor, Bureau of Labor Statistics.

ing in a loss of production estimated at about 100 million man-days. The peak year was reached in 1937, which rivaled 1917 with over 4,000 strikes; during the following years the number of strikes decreased.

The outbreak of the Second World War in 1939 and the involvement of the United States therein in 1941 necessitated a program of industrial production for national defense which would brook no interruption because of industrial conflict. Although antistrike legislation was promptly presented in Congress it was not immediately passed. Strikes were outlawed by mutual consent and by the national patriotism of both labor and capital without formal written statutes.

4. Nature of Strikes and Lockouts.—The U.S. Department of Labor has defined a strike as "a concerted withdrawal from work by a part or all of the employees of an establishment, or several establishments, to enforce a demand on the part of the employees." The counterweapon of the employer is the lockout. Both are manifestations of industrial unrest and represent conflict instead of cooperation.

The causes of strikes and lockouts are similar; the result is the same, *viz.*, a cessation of work. In the former case the initiative lies with the employees; in the latter case, with the employer. This distinction means little, however, for employers can create conditions which result in strikes and employees can create conditions which result in lockouts. A thoughtful analysis of the causes of industrial warfare requires more knowledge than merely which party to the conflict fired the first gun or made a prior declaration of war.

5. Kinds of Strikes.—Strikes may be either positive or negative. They are said to be positive if the workers are demanding improved

conditions of labor and negative if they are striving merely to maintain existing standards. A similar distinction is that between attack strikes and defense strikes.

Strikes may be classified according to their extent, as well as according to their purpose. Thus there are local, national, and international strikes. Local strikes are those which are confined to a particular plant. National strikes affect an entire industry and are operative throughout the country. Illustrations are some coal and railroad strikes. International strikes are relatively rare, although the effects of a national strike may be international.

The *general strike* involves the cessation of work in all industries. Such a drastic measure can be explained only in terms of such far-reaching objectives as the overthrow of the existing economic system. A *sympathetic strike* is the cessation of work by employees in other industries than the one in which the strike originated. It is apt to be unsuccessful and is rarely used by the trade unions belonging to the American Federation of Labor. An *outlaw strike* is one conducted by a militant minority without approval of officials of the union and without support of the majority of its members.

6. Causes of Strikes.—Industrial disturbances, like international conflicts, have many causes. These are frequently so blended that it is difficult to isolate a single cause or to distinguish between immediate and remote causes. Some leading causes of industrial unrest were indicated in previous chapters; the aims and policies of unions were discussed in the preceding chapter.

Frequent causes of strikes are to be found in labor's demands for an increase in wages, for a decrease in hours of work, and for a recognition of the union. The chief cause of over half the strikes from 1881 to 1905 was a demand for higher wages or a protest against lower wages. Although still the chief cause of industrial disputes, the wage question seems to be declining in relative importance as compared with purely union causes of strikes, such as a demand for recognition, status, or jurisdiction.

The U.S. Bureau of Labor Statistics classified the causes or combination of causes of almost 25,000 strikes occurring between 1916 and 1926. As a group, wage issues, either singly or combined with other issues, figured in fully three-fifths of all cases. The matter of hours of work was the sole cause in only 4 per cent of the total, and one of several issues in only 12 per cent of the total. Recognition and other union issues constituted the chief causes in scarcely one-fifth of the total number.

The passage of the National Industrial Recovery Act was followed not only by an increased number of labor disturbances, but also by a change in their causes. Industrial disputes coming before the newly

created National Labor Board involved failure of the employer to recognize the union or to grant collective bargaining, interference with union campaigns, discriminations against union members, and other violations of Sec. 7*a* of the National Industrial Recovery Act in approximately three-fourths of all cases coming before the national and regional boards. The wage issue lost, temporarily at least, its former primacy as the cause of labor disputes.

Strikes constitute militant and organized protests against existing industrial conditions; a high rate of labor turnover represents a passive and unorganized protest. Strikes are symptoms of industrial unrest in the same way that boils are symptoms of a disordered system. Something more than mere alleviation or temporary relief is necessary in both cases.

The growing strength of organized labor is making the strike a more formidable device of collective bargaining. It is an economic weapon, the continued use of which has serious consequences, not only to labor and capital, but also to the general public. Recent strikes or threats to strike in key industries, such as the coal mines and the railroads, have made the problem one of great national importance. Causes of strikes must be studied and an attempt made to avert them; it is also necessary to regulate strikes by the elimination of illegal methods and unsocial practices.

7. Significance and Success.—Strikes are symptoms of industrial unrest, which is most acute in periods of economic readjustment. In periods of industrial recovery and prosperity strikes are likely to be numerous but short; in periods of depression they are apt to be more serious and protracted. On the whole, prosperity and recovery are more productive of labor disputes than are depressions. Hence strikes have been called growing pains of industrial and social progress.

The success of a strike is difficult to measure. There are indirect, as well as direct, results. Gains achieved must be balanced against losses sustained. The success of a strike is conditioned by the strength of the union and the state of public opinion. It is conditioned also by the phase of the business cycle.

In periods of industrial prosperity, workers are more successful than employers, while in periods of business depression employers are more successful. In 1917, for example, employees won twice as many strikes as employers; while in 1921 the ratio was practically reversed. In periods of prosperity, employers are more willing to concede to the demands of their workers; they do not wish to close their plants and they may be able to pass on the additional costs in the form of higher prices of goods. In periods of depression, on the contrary, employers may be on

the verge of closing their plants because of lack of, or slack in, business; they find it difficult to assume or to pass on additional costs.

It has been contended that the proportion of successful strikes has been decreasing. This was explained in terms of an increasing centralization in the control of capital. Such a generalization, however true in the period between the First World War and the great depression following 1929, did not seem to be true of the period of reconstruction following 1933.

8. Legality of Strikes.—The legal status of unions and the right of labor to organize are now assured. Nevertheless, not all methods of collective bargaining or all practices of labor organizations are legal.

a. Aim and Method.—The legality of a strike, like that of many other human actions and social relationships, depends on both its purpose or intent and its means or method of conduct. A collective cessation of work in a peaceful manner is recognized as legal, where the aim is an improvement in the wages, hours, and working conditions of the employees concerned. On the other hand, if the primary purpose of a strike is deliberate injury to an employer or his nonunion workers, such a strike would be regarded as illegal. Moreover, a strike, to be legal, should be free from coercion and intimidation; violence is condemned and not condoned at law.

There is a paradox involved in such a statement of the legality of strikes. This difficulty cannot be avoided, for there is necessarily a conflict in all labor disputes, not only of economic interests, but also of legal rights. It would seem that workers possess the right to quit work collectively when the purpose of such a strike is an improvement of working or living conditions. But such an act is bound to be one of implicit coercion, if not of explicit intimidation. Hence it conflicts with the employer's legal right to do business and to have free and unrestricted access to the labor and commodity markets. An effective strike must necessarily injure the business of the employer against whom it is conducted. But if the injury is incidental and not malicious in extent, and if the primary purpose is an improvement in the working conditions of the employees concerned, such a strike would not generally be considered illegal.

b. State and Industry.—Laws concerning the legality of strikes vary from state to state and from industry to industry within a given state. Moreover, judicial interpretations have changed from time to time and they have differed from place to place. Court decisions have been neither clear nor consistent concerning the legality of strikes, even within a particular state and a specific industry. Finally, methods of conducting strikes have changed and this old problem has presented constantly

new facets. For example, the sit-down strike and the slow-down strike presented novel legal problems to administrators, legislators, and jurists who had been accustomed to regard strikes as walkouts.

Strikes in essential industries were forbidden in Kansas when the compulsory arbitration of industrial disputes was in force in that state. On the other hand, most peaceful strikes were legal in California, where the law slighted the intent of strikes but stressed their method of conduct; it sought chiefly to eliminate violence, intimidation, and coercion.

The legality of a strike depends on the industry, as well as on the state, in which it occurs. There has been opposition to strikes of governmental workers and public-utility employees. Thus the strike of the Boston policemen in 1919 was condemned. A more recent but equally flagrant case was the short but serious black-out of Kansas City in 1941 by the wanton strike of a few electricians who refused to remain at work pending settlement of their grievances. A strike of railroad workers likewise would paralyze the industrial life of the nation and cause untold suffering. It would seem that the essential nature of an industry must limit the right to strike, rather than merely increase its potential effectiveness. Such was the thought behind the Kansas compulsory-arbitration law.

c. Responsibility and Reasonability.—Although strikes may be illegal, it is difficult to prevent them. An individual possesses the right to quit work, and to compel him to continue employment against his will would be involuntary servitude. But inducing others to quit work is a different matter; the law may condemn such collective action as conspiracy. Inducing employees or agreeing with other employees to stop work is difficult to prove, however, for the cessation of labor may appear to be as spontaneous as it is sudden. In such cases, the courts have decided that the chief responsibility must fall on the agents or officers of the labor organization most directly concerned. By such rationalization a union official was sent to prison for violation of the Kansas antistrike law, which was subsequently declared unconstitutional.

Although legislative statutes and court decisions differed, there were, before the New Deal of President Roosevelt, some broad principles of agreement. By and large, those strikes directly involving wages, hours, and conditions of work were generally regarded as legal. On the other hand, strikes to gain the closed shop, strikes to eliminate the use of nonunion materials, and sympathetic strikes were frequently, but not universally, regarded as illegal.

9. Methods of Striking.—Strikes were formerly referred to as *walkouts*, for that was the technique employed. Organized dissatisfaction with conditions of employment and collective agreement to protest them were expressed by leaving the plant in a body on a given signal or at an

agreed time. Except for factory guards and a small maintenance crew the workers remained outside the plant and did not return inside it until the strike was terminated and work was resumed.

The *sit-down strike*, however, employed a different technique from that of the earlier and more conservative walkout. Workers stayed inside the plant and remained on the premises of their employer, where they ceased to work and refused to permit other employees to take their places. By the sit-down strike private property of owners of mills and factories was seized, temporarily at least, by the workers. There were always coercion and intimidation; there were frequently violence and damage. Resistance by the employer to the appropriation of his property or obstruction of food and other supplies to the idle employees inside the factory was the spark which fired the conflagration.

The sit-down strike originated in France. It was introduced into America by the Congress of Industrial Organizations as a means of securing unionization of workers and compliance with their demands. The United Automobile Workers utilized the sit-down strike in 1937 against the General Motors Corporation in many of its plants in and about Detroit. The novelty and the success of this action produced an epidemic of sit-down strikes. Industry was threatened with sudden paralysis; capital sought escape from, if not security in, private enterprise; a short but sharp business recession shook the country. Although the illegality of the sit-down strike was apparent even to most laymen, some governmental officials were loath to commit themselves by word or deed. Those sympathetic to the sit-down strike contended that the laborers had a property right to their jobs which was just as sacred as the property right which capitalists had to their machinery and factories. Finally, in 1939, the Supreme Court of the United States rendered an authoritative decision[1] which declared the sit-down strike to be illegal. Employees who engage in sit-down strikes and resist efforts of police to oust them from factories lose their status as employees and the privileges afforded them as such by the National Labor Relations Act.

The sit-down strike in the General Motors plants was followed by the *slow-down strike* in the factories of the Chrysler Motor Company. Employees did not walk out of those plants, but remained at their places; they did not cease work but continued at their tasks at a slow rate of speed. Proof of concerted action lay in the fact that one out of every several cars would come through the assembly line in an unfinished condition. In the face of such a situation the officials of the company closed down some of their plants. Industry could not operate against sabotage in the form of the slow-down strike. Arguments for and

[1] *National Labor Relations Board v. Fansteel Metallurgical Corporation*, 306, U.S. 240, 1939.

against the slow-down strike are identical with those advanced for and against restriction of output, discussed in the preceding chapter.

10. Strikebreaking and Picketing. *a. Significance.*—Danger threatens when an employer endeavors to keep his plant running by filling the vacant places of strikers who have walked out with nonunion workers who have been recruited to march in. Strikebreakers are groups of laborers who may be rushed from place to place as occasion demands. These industrial mercenaries are composed chiefly of casual and migratory workers; they include the reckless and indifferent elements in the laboring population. Organized labor has attached the stigma, *scab*, to strikebreakers. They are hated more intensely than the employers themselves, to whom they are regarded as having sold out. Strikebreakers are viewed as taking bread out of the mouths of organized labor and must frequently work under the protection of plant guards.

Picketing is an attempt of strikers to persuade employees remaining at work to join the strike. Pickets are placed near the entrances and exits of the plant, where they attempt to dissuade employees from going to or continuing at work. Picketing may extend from peaceful persuasion to intimidation and violence. It may go from the borders of the plant into the homes of the workers. The scab may be subjected to numerous difficulties and dangers: he may be unable to secure food or lodging; he may find his home or his head damaged by an unseen hand.

b. Legality.—The Trades Disputes Act of 1906 legalized peaceful picketing in Great Britain. In the United States, peaceful picketing has likewise been legal; this view was confirmed by the Clayton Act of 1914. On the other hand, intimidation and coercion have been condemned. Of course, deeds of violence, such as attempts to destroy property and efforts to terrorize employees remaining at work, are criminal acts or conspiracies. Peaceful picketing without these attendant evils is rare. Consequently, the courts have found it necessary to define just what picketing may include and what it must exclude.

Former Chief Justice Taft delivered an important decision of the United States Supreme Court on the subject of picketing. He pointed out that there are limits beyond which even persuasion may not go without violating the rights of others. "Persistence, importunity, following, and dogging become unjustifiable annoyance and obstruction which is likely to savor of intimidation." The number of pickets that might be stationed at each point of ingress or egress was limited to one. The worker must be approached singly and not collectively in order for the element of coercion to be absent. "Appeals should not be abusive, libelous, or threatening."[1]

[1] *American Steel Foundries v. Tri-city Central Trades Council*, 257 U.S. 184, 1921.

The laws and judicial decisions of different states on picketing are as varied as those on striking. California courts have condemned the practice of picketing as intimidation, despite the fact that the laws of that state have legalized strikes conducted in a lawful manner. Several other states have passed laws which make mass picketing illegal. The thought behind such laws and judicial decisions is that effective picketing involves coercion.

11. Nature and Types of Boycotts.—A boycott is an organized refusal to purchase or to use the goods of an obnoxious producer. It has sometimes been exercised by the public at large as a protest against high prices and monopolies. It has commonly been used by groups of workers and unions to bring a recalcitrant employer to terms.

The simple or primary boycott is a refusal by a particular group of employees to buy an article produced by their employer, who is, in their judgment, unfair to workers. The secondary or compound boycott is one which involves other employees or trade unionists than those directly interested in the particular labor dispute. When the members of a union seek to extend the boycott from their own membership to the general public and strive to prevent a third party from buying or using products of the boycotted firm, a primary boycott becomes a secondary boycott.

The boycott can be used by the workers as producers, as well as consumers. Union employees in one establishment, for example, may refuse to fashion products from another plant in which the open shop prevails or in which a labor dispute persists.

The success of a boycott, like that of a strike, depends on the strength of the particular union and on the solidarity of all organized labor. Both strikes and boycotts may involve many disinterested individuals; they may cause great general hardship and severe financial loss. In a bitter streetcar strike, for illustration, storekeepers were advised not to sell to individuals who patronized the cars. Thus the boycott and the strike went on simultaneously; both gradually reached out to all citizens of the community. Historic boycotts were those directed against the products of the Bucks Stove and Range Company and the Loewe Hat Company. Stores in strong labor communities were forced to discontinue the products of these manufacturers; failure to comply with this temporary interdict of organized labor meant loss of general patronage on all goods carried by the local stores.

12. Legal Status of Boycotts.—Under the common law, the legality of a boycott, like the legality of a strike, depends on its intent. In the absence of Federal legislation on the subject, many conflicting state laws were passed. The only common agreement and the generally accepted principle seemed to lie in fairly consistent court decisions that boycotts

were illegal where a deliberate and malicious attempt to injure an employer was found.

The manner of conducting a boycott is of even more significance. An individual may refuse to patronize a given firm, but a group of individuals may not organize to accomplish this objective collectively. The power to harm is greater and the element of conspiracy is present in such collective action. But in order to be effective, boycotts necessitate the persuasion of third parties. Secondary boycotts, nevertheless, may be construed as conspiracies which limit the constitutional guaranties to citizens of liberty and property.

If free from malicious intent and from deliberate attempt to coerce third parties, the boycott has generally been viewed as legal. Such a boycott, however, is as rare as peaceful picketing and chivalrous warfare. The most effective boycott is the secondary boycott, which is illegal.

Secondary boycotts have been viewed also as interferences with interstate commerce. The passage of the Sherman Act of 1890 meant that secondary boycotts might be indicted as combinations in restraint of trade. Such was the ruling in the Danbury Hatters case, in which the Supreme Court of the United States awarded the Loewe Hat Company triple damages as provided by the Sherman Act.[1] As a result of this decision, the American Federation of Labor discontinued the "We Don't Patronize" list in its official journal, for fear that such a list might be construed as an illegal secondary boycott and as a combination in restraint of trade.

The Clayton Act of 1914 declared that labor unions, as such, should not be viewed as combinations in restraint of trade within the meaning of the Sherman Act, although redress could still be had by any party injured by a violation of the antitrust laws. It remained for the courts to show that the Clayton Act had not changed materially the legal status of boycotts.

The United States Supreme Court, in the case of the Duplex Printing Press Company,[2] held as illegal boycotting by individuals other than those directly concerned in the dispute and especially the inducing of others to boycott. The right of injunction against these activities was sustained, despite the limitations imposed on injunctions by the Clayton Act.

This attitude was reaffirmed in the Bedford Stonecutters' case of 1927.[3] An injunction had been issued against the General Stone-cutters' Union, with local branches in many states, restraining it from ordering

[1] *Loewe v. Lawler*, 208 U.S. 274, 1908.

[2] *Duplex Printing Press Company v. Derring*, 254 U.S. 443, 1921.

[3] *Bedford Cut Stone Company v. Journeymen Stone Cutters' Association*, 274 U.S. 37, 1927.

its members not to work on stone produced by the Bedford Cut Stone Company. Although this boycott was a peaceful one, the opinion of the court was that the restraint imposed by the union was unlawful under the Sherman Act. The precedent of the Duplex case was cited by the court in its contention that boycotts had not been made immune or injunctions impotent by the Clayton Act.

13. Injunctions in Labor Disputes.—An injunction is an order from a court in equity to a particular individual or to various individuals to do or to cease from doing certain specified things. The judge issues the order, determines whether or not it has been disobeyed, and fixes the penalty for disobedience. Anyone who violates such a court order becomes guilty of contempt of court and may be punished summarily without trial by jury.

The injunction is designed to prevent irreparable injury to persons or property pending final determination of rights. Such cases in equity generally involve injuries for which there is no legal redress and for which there is no statutory punishment which can subsequently be inflicted. Instead of being reserved for emergencies and rare situations for which the law provides neither immediate relief nor specific penalty, the use of the injunction has become common and routine. It has been utilized frequently and sometimes improperly in labor disputes. Instead of specifying a particular act or acts, "blanket" injunctions have been issued. Moreover, they have been used to enforce, rather than to supplement, the law.

The historic Debs case emerged as one of the first uses and one of the most flagrant abuses of the injunction in labor disputes. It grew out of the strike of 1894 which the American Railway Union was conducting against the Pullman Company. The public suffered from an interference with interstate commerce and a delay of the mails. Accordingly, the court issued an injunction against officials of the union and any other persons from interfering with interstate commerce and the transportation of the mails. Disobedience of this order was punished as contempt of court, in spite of the fact that under existing Federal statutes interference with the mail was already specified as a crime. The injunction further enjoined any persons from "compelling or inducing by threats, intimidation, persuasion, force or violence any railroad employees from quitting work." For a violation of this injunction Eugene Debs was tried for contempt of court and sentenced to a prison term.[1]

Another flagrant abuse of the injunction was by the Bucks Stove and Range Company, whose employees had been utilizing a boycott in order to unionize the workers in its plant. A court writ was secured against this boycott of the products of the Bucks Stove and Range Company

[1] *In re Debs*, 158 U.S. 564, 1895.

on the part of "the officers of the American Federation of Labor, officers and members of affiliated unions, friends, sympathizers, counsel, conspirators, and co-conspirators." They were forbidden to refer by printed, written, or spoken words to the allegedly unfair practices of the company and even to the very existence of an industrial dispute. Such a court order prevented the circulation of the proceedings of a convention of the American Federation of Labor. If literally carried out, it would have terminated many constitutional guaranties to citizens. Freedom of speech or of the press was to be denied when used to promote such an illegal conspiracy as a secondary boycott. As a result of the injunction issued in the Bucks Stove and Range case, Messrs. Gompers, Mitchell, and Morrison were indicted and given jail sentences for contempt of court. One of the offenses alleged against them was the "printing of the text of the injunction in the *Federationist.*"[1]

Two of the most drastic injunctions in labor disputes were secured by the Federal Government itself by its own Department of Justice. One was obtained in 1919 under the Food and Fuel Control Act. It prohibited the officers of the bituminous-coal miners from calling a strike, directing it, or even touching the union funds in bank for strike benefits. The other was an injunction issued in 1922 against railway shopmen; the court order forbade officials of the union to issue instructions or to encourage cessation of work; it referred to the strike as a conspiracy to disobey the findings of the Railroad Labor Board.

14. Criticism of Injunctions.—Organized labor has objected to blanket injunctions and to their issuance when no emergency justifies the sacrifice of due process of law. The abuse of the injunction leads to the sacrifice of the constitutional guaranties of freedom of speech and freedom of the press. It is contended that full publicity as to working conditions is desirable and that the injunction is often used to suppress such dissemination of information. Has not a person or combination of persons the right to make public the fact that a certain firm pays low wages, works long hours, or opposes the closed shop? If an individual's business is injured, that is incidental and not malicious; the real intent is an improvement of working conditions.

15. Restriction of Injunctions. *a. Clayton Act.*—The Clayton Act attempted to place restrictions on the use of the injunction and to remove restrictions from the use of the boycott. It provided that injunctions issued by Federal courts should not prohibit stopping work, peaceful picketing, or refusing patronage, whether done singly or in concert. Moreover, a jury trial was to be allowed in contempt-of-court cases where the offense was indictable as a statutory crime. No preliminary

[1] *Gompers v. Bucks Stove and Range Company*, 221 U.S. 418, 1911.

injunction should be served without notice, unless it was evident that immediate and irreparable injury would result.

Judicial decisions, some of which were cited in preceding sections, interpreted the Clayton Act as neither restricting injunctions nor extending boycotts. Even if enforced or enforceable, the restrictions on injunctions embodied in the Clayton Act applied only to Federal courts and not to state courts.

b. State Laws.—State legislation likewise attempted to limit injunctions and to prevent their abuse. But these efforts at first met with little success. An anti-injunction law, passed in 1913 by the state of Arizona, was declared unconstitutional by the Supreme Court of the United States in 1921. Within more recent years, however, many states have passed laws which limit the use of injunctions and which prevent their abuse in labor disputes. Most of these state statutes were in imitation of the Norris-La Guardia Act. They were passed after the courts ruled that this Federal statute was restricted to interstate commerce and that its limitations on injunctions were applicable only to Federal courts.

c. Norris-La Guardia Act.—As a result of frequent and flagrant abuses of the injunction in labor disputes and of the failure of Supreme Court decisions to suppress or to limit these abuses, Congress passed the Norris-La Guardia Anti-injunction law of 1932. Section 4 of this law provides that no Federal court may issue an injunction to prohibit workers, singly or collectively, from ceasing or refusing to work; from becoming or remaining a member of a union, regardless of any previous promise not to affiliate therewith; from paying or withholding strike or unemployment benefits; from aiding by lawful means any person participating in a labor dispute who is involved in court action; from giving publicity to the facts of any labor dispute by advertising, speaking, or patrolling or any other method not involving fraud or violence; from assembling peacefully or organizing to act in promotion of labor interests in a labor dispute; from advising or urging without fraud or violence other persons to join with them in doing or not doing any of these acts.

Section 5 of the Norris-La Guardia Act attacked the former doctrine of conspiracy and denied that acts lawful when done singly were unlawful when done collectively. Section 6 removed blanket liability from the backs of union officials for damage done during labor disputes. These features of the Norris-La Guardia Act, it will be remembered, were discussed in Chap. XIII.

16. Economic and Social Losses of Industrial Conflicts.—Attempts to compute the cost of industrial conflicts are as numerous and as dubious as attempts to estimate the cost of international wars. The U.S. Bureau of Labor Statistics estimated that the total loss due to strikes

and lockouts from 1881 to 1900 was almost a half billion dollars. This is a large lump sum, but it becomes very small when divided among the number of people concerned or spread out over these 20 years on a weekly basis. According to a labor leader, the total loss in employment due to strikes from 1881 to 1900 amounted to 194 million days, but, when spread over the 20 years and among the large number of workers affected, it amounted to less than 1 day per year per adult worker.[1] The average industrial worker loses 20 days a year from illness, accidents, and various personal reasons. When compared with the total volume of unemployment, that due to strikes and lockouts is relatively slight, especially when "shutouts" are substituted for "shutdowns" in slack seasons.

The indirect losses of industrial conflicts are probably greater than the direct losses, and their social costs may be heavier than their economic burdens. One of the most serious features is the disorder which often accompanies strikes and lockouts. Conservative labor leaders deplore the use of violence, which frequently acts as a boomerang and which often alienates public sympathy. Revolutionary unionism, on the other hand, condones the use of open or secret force. Much of the disorder which accompanies strikes can be ascribed to neither the employers nor the striking employees. It is the malicious mischief of restless and reckless elements in the community which have no regard for law and order and which care little for either human or property rights.

Although labor leaders have asserted that troops have been employed to break strikes and to weaken unions, such measures become necessary when the civil authorities are not able to cope with the local emergency. In times of grave disorder, Federal aid can be requested, for the Constitution provides that a republican form of government shall be guaranteed to the individual states. Industrial conflict may not only result in a destruction of life and property, but it may also endanger, for a time, the very existence of a democratic form of government.

Summary.—Strikes are weapons of last resort in the warfare between organized labor and capital. They are symptoms of industrial unrest common in periods of economic adjustment. Strikes were frequent in the closing decades of the past century and in the opening decades of the present century; they were frequent also during the First World War and the readjustment period immediately following it. The number of these industrial disturbances decreased markedly between 1922 and 1932, but economic recovery and the legalization of collective bargaining were accompanied by an increase in strikes. The national defense program of the Second World War required rapid and uninterrupted production; it was featured by an armistice between labor and capital instead of antistrike legislation.

[1] MITCHELL, J., "Organized Labor," pp. 309–310.

The chief cause of strikes has been the desire for increased wages or opposition to decreased wages. Secondary causes have been demands for shorter hours and better working conditions. An increasingly important cause of strikes has been controversy over rights and powers of collective bargaining.

Strikes are more numerous and successful in periods of prosperity and rising prices. They are less numerous and successful, although more serious, in periods of depression and falling prices.

The legality of a strike depends on its intent and on its method of conduct. A collective cessation of work in a peaceful manner is legal, where the aim is an improvement in wages, hours, and working conditions. The legality of strikes and especially of weapons of collective bargaining has varied from state to state, from time to time, and from industry to industry.

Strikebreaking is the substitution of unorganized workers for union employees who have gone on strike. It is apt to result in violence and disorder. Picketing is an attempt of strikers and union sympathizers to persuade working employees to quit work and to join the strike. Picketing is lawful if free from the intimidation and coercion which often accompany it.

Boycotts are organized refusals to purchase goods or to use the materials of those employers who are hostile to organized labor. A primary boycott concerns only those who are parties to the dispute. A secondary boycott involves the general public. Primary boycotts have generally been considered legal; secondary boycotts have frequently been viewed as combinations in restraint of trade.

An injunction is an order from a court in equity to an individual or a group to do or to refrain from doing certain things. The violator of an injunction may be punished summarily for contempt of court. The original purpose of the injunction was to afford immediate relief against a threatened loss of life or property until an adjudication of rights could be made in the absence of a statute specifically covering the case. But blanket injunctions have frequently been issued in labor disputes to restrain individuals from acts which are already specified as statutory offenses or which are in accord with constitutional guaranties. Organized labor has bitterly criticized the abuse of injunctions in industrial disputes.

The Norris-La Guardia Act of 1932 restricted the power of Federal courts to issue injunctions in labor disputes. It also attacked the doctrine of conspiracy and limited the liability of labor organizations involved in industrial disputes.

Many attempts have been made to estimate in monetary terms the costs of strikes, the average annual charge of which against American

industry as a whole must run into millions of dollars. Even more serious than these economic losses, however, are the social costs of industrial conflicts, such as deeds of violence and class hatred. This chapter on industrial conflict will be followed by one on industrial peace, in which various methods of preventing and settling industrial disputes will be explored.

Questions for Discussion

1. *a.* Give some antecedents of strikes.
   b. How were these early economic conflicts similar and dissimilar to modern strikes?
2. *a.* What periods have been characterized by frequent strikes and what by infrequent strikes?
   b. Give reasons.
3. When are strikes apt to be successful? When unsuccessful? Why?
4. Outline different types of strikes. Distinguish among them.
5. On what points does the legality of strikes depend? Explain and illustrate.
6. Discuss the legality of picketing and the advisability of strikebreaking. Illustrate.
7. Explain the nature, types, and legality of boycotts.
8. *a.* What is an injunction?
   b. Explain its purpose and defend its use.
9. How have injunctions been abused in labor disputes? Illustrate.
10. Give the main purposes and chief provisions of the Norris-La Guardia Act.

Topics for Investigation

1. Causes of strikes and their changing character.
2. Economic and social costs of industrial conflicts.
3. Sympathetic strikes and the general strike.
4. Sit-down and slow-down strikes.
5. Railway strikes of 1877 and 1894.
6. Debs case of 1895.
7. Anthracite strikes.
8. Industrial conflicts in the bituminous mines.
9. Danbury Hatters case.
10. Bucks Stove and Range case.
11. Duplex Printing Press Company case.
12. Bedford Stonecutters' case.
13. Effects of the Clayton Act on labor's powers of collective bargaining.
14. Effects of the Norris-La Guardia Act on labor's powers and privileges.

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CHAPTER XVII

INDUSTRIAL CONCILIATION AND ARBITRATION

PROGRAMS OF INDUSTRIAL PEACE

1. Change of Attitude.—The laissez-faire philosophy of government was possible as long as competition prevailed, industries were small, and workers were unorganized. The development of modern industrialism has made such an economic philosophy no longer tenable, for monopolies of both capital and labor have arisen, supercorporations have grown up, and powerful unions have been formed. Rich associations of employers are now balanced by strong labor organizations. Predatory practices and militant tactics have been utilized by both sides. The economic and social costs of industrial conflicts are so great that the general public can no longer remain a mere spectator; the consumer, a patient sufferer; or the government, a silent partner.

Industrial peace, like international peace, is imperative if capitalism is to be preserved and if civilization is to be saved. Justice to all parties requires even balance and equal representation. Peace and plenty, social security and economic prosperity require the parliamentary negotiation of disputed issues instead of the menacing alternatives of cessation of economic production or resort to militant methods of industrial warfare. Experimental programs of industrial democracy seek the channel of industrial peace between the sands of industrial anarchy on the one side and the rocks of industrial autocracy on the other side.

2. Methods of Adjusting Industrial Disputes.—The chief methods for the settlement of industrial differences are negotiation, conciliation, and trade agreements by the parties themselves within industry, and mediation, arbitration, and investigation by government outside industry. In industrial, as well as international, relations, the prevention of conflicts is even more important than their settlement after the damage has been done.

a. Trade Agreements.—Trade agreements are compacts as to wages, hours, recognition of the union, and general conditions of employment which are made between an employer or an association of employers and organized labor. They represent the normal functioning of collective bargaining between parties of nearly equal strength. An agreement is generally reached at a joint conference between union officials and representatives of employers. It has a specific time limit, at the end of which

another conference is held for the purpose of drawing up a new trade agreement or modifying and reaffirming an old one.

Trade agreements are statements of accepted usages or of approved conditions of employment within an industry. Individual employers and employees make employment contracts based on trade agreements, but, as will be explained later in this chapter, the trade agreements themselves are not legal contracts. It is possible, however, to strengthen trade agreements by making them into enforceable legal contracts, if the parties thereto are willing, able, and responsible.

b. Conciliation and Mediation.—The term "conciliation" is sometimes used for the settlement of industrial disputes without the interference of a third party, but the word is more often used as synonymous with mediation. Trade agreements are normal and regular, but conciliation implies the existence of a crisis or failure to reach an agreement. "Mediation" is the presence of an outside person or a nonpartisan body for the facilitation of industrial peace during such a labor crisis.

Conciliation and mediation are similar in that neither is compulsory or judicial. The mediator has been termed a "confidential advisor" and an "industrial diplomat." His chief function is to help the two sides come to an agreement of their own accord, rather than to render an award or a decision of his own making.

c. Industrial Arbitration.—Industrial arbitration, in contrast, is more judicial than diplomatic. Arbitration involves the existence of a person, board, or court for the purpose of making an investigation and submitting a decision.

Arbitration may be either voluntary or compulsory, and the acceptance of the award may be either voluntary or compulsory. Thus four combinations are possible, *viz.*, (1) voluntary arbitration with voluntary acceptance of the award, which is really no more than mediation; (2) voluntary arbitration with compulsory acceptance of the award, which is commonly known as "voluntary arbitration"; (3) compulsory arbitration with voluntary acceptance of the award, which is, in effect, compulsory investigation; and (4) compulsory arbitration with compulsory acceptance of the award, which is commonly known as "compulsory arbitration." These four methods are outlined in the following table.

CROSS CLASSIFICATION OF METHODS OF ADJUSTING INDUSTRIAL DISPUTES

Acceptance of award	Initiation of action	
	Voluntary	Compulsory
Voluntary	Mediation	Compulsory investigation
Compulsory	Voluntary arbitration	Compulsory arbitration

d. Compulsory Investigation.—Compulsory investigation means an impartial study of the causes of an industrial dispute. "More light without more heat" is the slogan. A public statement of the findings will rest the case with the great jury of public opinion. The temporary suspension of the right to strike, which is sometimes involved, may result not merely in the postponement of industrial warfare but possibly in its elimination.

Compulsory investigation relies on the weapon of public opinion instead of legal compulsion. Strikes and lockouts may not always be prevented, but they can be delayed until an impartial commission makes an investigation and publishes its findings. Meanwhile, the passions of opposing parties have cooled, and the facts in the case have been ascertained and disseminated. Such a procedure permits the crystallization of an intelligent public opinion, which cannot be defied with impunity by either labor or capital.

3. Types of Governmental Action.—Various attempts of government to adjust industrial disputes may be grouped as mediation, voluntary arbitration, compulsory investigation, and compulsory arbitration. Great Britain, the Federal Government of the United States, and most individual states of the Union have utilized mediation and voluntary arbitration. Great Britain and several European countries have employed compulsory investigation without postponement of the right to strike. Compulsory investigation with postponement of the right to strike has been tried in Canada and Colorado. Compulsory arbitration has been used in Australasia and Kansas.

4. Governmental Arbitration and Investigation Compared.—The various steps in voluntary arbitration have been outlined as follows:

(1) The submission of the dispute to the decision of a third party; (2) submission to an investigation; (3) refraining from a strike or lockout pending investigation; (4) drawing up an award; (5) enforcement of the award and refraining from strike or lockout during its life. Arbitration remains strictly voluntary even if at every step except the first the state uses its compulsory power. The essential thing is that *both* parties consent in advance to calling in the powers of government. Hence, it is not inconsistent with the idea of voluntary arbitration for the state to use its power of compelling testimony, or even of enforcing an award, provided that both sides have previously agreed that this is to be done.[1]

Under compulsory investigation, the state may step in on the initiative of either party without the consent of the other, or on its own initiative without the consent of either party directly affected by the labor dispute. The state board of investigation is empowered to summon witnesses and to exact testimony, but it is purely a fact-finding

[1] COMMONS, J. R., and J. B. ANDREWS, "Principles of Labor Legislation," 4th ed., p. 137, 1936.

organization. Although it may recommend as well as investigate, the board is without legal power to enforce its award. The compulsory postponement of strikes and lockouts during investigation is highly desirable, but it is not essential to compulsory investigation.

Compulsory arbitration results when the government compels employers and employees to submit their labor disputes to an independent body and an outside agency for a decision. In compulsory arbitration, all five steps listed for voluntary arbitration are followed, but the first step is no longer optional. Moreover, coercion exists all along the line; the dispute must be submitted to arbitration and the parties must refrain from strikes and lockouts. Witnesses must testify, the board must make a decision, and the parties to the dispute must observe the award during the period specified in the decision.

5. Mediation and Arbitration Compared.—The chief advantage of mediation is that it helps the disputants to solve their own problems. A mutual understanding or a voluntary agreement between the two parties is better than an award imposed by an outside body of arbitrators. A governmental commission of mediators accomplishes a great forward step merely by bringing together the two disputants. Discussion of their chief differences develops a knowledge of "the other fellow's point of view." A sympathetic understanding of points of agreement and disagreement may develop a way out of the difficulty through some workable formula. Mediation makes for negotiation, and negotiation makes possible a mutual agreement, which is apt to work better and to last longer than an award of impartial but indifferent arbitrators, who are apt to arrive at a compromise pleasing to neither side.

Arbitration and mediation are different stages rather than different methods. After mediation has been tried unsuccessfully, the two parties may agree to submit their differences to an impartial board of arbitration. The voluntary arbitration of industrial disputes, as well as of international disputes, is far superior to the costly methods of fighting them out described in the last chapter.

It is alleged that an outside board of arbitration cannot be familiar with existing conditions and with the problems at issue. In order to obviate this disadvantage, representatives of both employers and employees may be placed on the board of arbitration in addition to representatives of the general public. In such a tripartite body, the votes of the first two groups are assured in advance; the ultimate decision rests, as before, with representatives of the public.

6. Advantages and Disadvantages of Coercion.—Advocates of compulsory arbitration point out that mediation, voluntary arbitration, and compulsory investigation do not always eliminate industrial conflicts. Compulsory arbitration is defended as a necessary final resort, because

of the tremendous economic and social losses resulting from strikes. The complexity and interdependence of modern civilization mean that strikes, lockouts, boycotts, and other weapons of industrial warfare injure countless individuals who are not parties to those disputes. In its final analysis, the case for compulsory arbitration rests on the public welfare, which is jeopardized by industrial conflicts.

On the other hand, there are strong arguments against coercion by the government. The existence of a powerful board of arbitration, whose award is compulsory, implies the existence of certain standards of justice in accordance with which judgment is to be rendered. But the determination of a just wage is even more difficult than the determination of a minimum wage. Moreover, the regulation of prices, especially the prices of services, is a dubious, as well as a difficult, function of government. The judicial method of using precedents, if followed, is detrimental to progressive wage standards; if not followed, there is danger of discrimination.

The enforcement of unpopular decisions is always undesirable and often impossible; individuals cannot be compelled to work against their wills. Most of the verdicts of courts of compulsory arbitration in Australasia and Kansas were favorable to labor. Nevertheless, the cry of favoritism and prejudice was raised by the workers when a case went against them. Capitalists are opposed to wage boards because they regulate conditions of employment and prescribe rates of wages. Ultraconservatism of capitalists or radicalism of laborers is frequently claimed by the defeated litigant; an improper extension of the functions of government is charged by implacable foes of compulsory arbitration.

The constitutionality of compulsory arbitration is a moot question in the United States. It has been indicted by extremists as a restriction on the constitutional guaranty of freedom of contract and as an imposition of conditions of involuntary servitude. It will be shown in a later section that judicial opinion in the United States condemns compulsory arbitration as a general principle, although it may condone it in basic industries and during war emergencies.

7. Collective Negotiation and Compulsory Arbitration.—Organized labor has attacked compulsory arbitration because of the limitations which it imposes on the weapons of collective bargaining. The right of organized labor to strike is jeopardized or sacrificed. Unions are weakened, for some of their chief reasons for existence are destroyed.

The very essence of conciliation, mediation, and voluntary arbitration is the voluntary acquiescence in and mutual participation by employers and employees. The power of collective bargaining of neither party is sacrificed. But compulsory arbitration is coercive and restricts the bargaining power of both labor and capital.

The workers contend that the loss of the lockout to the employer is not so serious as the loss of the walkout to organized labor. The employer is not forced to shut down his plant in order to cut wages, but the workers may be forced to strike, or to threaten such a move, in order to raise or to maintain their wages. A strike is essentially the collective refusal of an employer's terms by his organized employees. The loss of the right to strike weakens or destroys labor's power to bargain collectively over terms and to negotiate successfully for favorable agreements.

Under compulsory arbitration, the power of employers to bargain effectively must be reduced proportionately to that of employees. Labor's loss of the right to strike must be balanced by the employer's loss of power to change wages, hours, and conditions of employment without advance notice and subsequent investigation. Such provisions are far more effective than mere refusal of the right to lockout. An employer could easily substitute a shutdown of his plant for a lockout by claiming that it was unprofitable to continue operations under existing conditions.

If compulsory arbitration is to be substituted for collective negotiation, the state must assume the duty of regulating wages, hours, and working conditions. Governmental officials or bureaus, such as wage-and-hour boards, must estimate, establish, and enforce not merely minimum wages and maximum hours in general, but also standard wages and hours in particular industries and localities, recognizing and relating competitive differentials. Moreover, the enforcement of such awards must be accomplished without a shutting down of the plant by a strike or lockout and without a slowing down of production to a rate which makes it unprofitable for the employer to continue in business.

8. Mediation and Voluntary Arbitration in Interstate Commerce.— The Federal Constitution grants Congress power over interstate commerce. This provision has been the legal basis for regulation of big business by such Federal statutes as the Interstate Commerce Act, the Sherman Act, and the Clayton Act. That same constitutional provision has been utilized, but to a lesser extent until recently, to justify regulation by the Federal Government of labor engaged in interstate commerce or intrastate industry dependent on interstate commerce. It is natural, therefore, that the earliest venture in, the longest experience with, and the most elaborate machinery for mediation and voluntary arbitration by the Federal Government should be found in transportation for interstate commerce.

Shortly after the Civil War, railroad strikes became a national menace. Congress, in 1888, passed the first significant national statute seeking adjustment of labor disputes and providing voluntary arbitration in interstate commerce. In 1894, President Cleveland created a commis-

sion to investigate the Pullman strike of that year; out of its report came the Erdman Act of 1898, which set up administrative machinery for mediation and voluntary arbitration in interstate commerce.

The Newlands Act of 1913 provided for the U.S. *Board of Mediation and Conciliation,* consisting of a permanent commissioner and two other officials appointed by the President with the advice and consent of the Senate. Unlike the former board, it could act on its own initiative and was not forced to wait for a request for mediation from one party to the dispute and for an acceptance by the other party of its offer of mediation. If a resort to arbitration was necessary, and desired by both parties, the board increased its membership from three to six, and sat as a board of arbitration instead of mediation.

The Board of Mediation and Conciliation was short-lived but fairly successful in settling disputes among railway workers. In 1916, its efforts at mediation were unsuccessful, and the railroad brotherhoods refused to accept arbitration. In order to avoid a serious nation-wide railroad strike, Congress hastily passed the Adamson Act, which granted the basic 8-hour day to railroad workers. Although legislative action may have been necessary, the Board of Mediation suffered thereby loss of prestige from which it did not recover.

During Federal operation of railroads during the First World War, the *Railroad Wage Commission* was established by the director general of the railroads. Various ephemeral railroad boards of adjustment also were in existence during this emergency.

The railroads were returned to their owners under the Transportation Act of 1920. This law provided for the creation of railway boards of labor adjustment and a central *Railroad Labor Board.* The latter body consisted of nine members, three of whom represented the employers, three the employees, and three the general public. They were appointed by the President and approved by the Senate. During his five years in office, a member could not own the securities of any common carrier or be an officer of any labor organization.

It was the feeling of many thoughtful persons that strikes by employees of public utilities were wrong. It was proposed to make the arbitration of industrial disputes compulsory in the railroad industry. This extreme step, however, was not taken in the Transportation Act of 1920. Although the Railroad Labor Board was a court of final appeal, its decisions were not mandatory. It was often defied by both railroad companies and railroad unions.

The Railway Labor Act of 1926 abolished the Railway Labor Board, established by the Transportation Act of 1920. It substituted therefor several different agencies, chief among which was the *National Mediation Board* appointed by the President of the United States. The general

principle of mediation and voluntary arbitration was retained. Decentralization was sought and collective bargaining was encouraged. Direct and voluntary negotiation between the two parties to an industrial dispute was the first step. Temporary, regional, bipartisan boards of adjustment were to function in case of deadlock; from them appeals might be made to the National Mediation Board. If mediation failed and mutual consent could be obtained, temporary boards of arbitration were to be appointed. Failure of negotiations at this stage was to be reported to the President of the United States, who would then appoint an emergency board of investigation with power to get the facts and with responsibility to report within 30 days. Meanwhile, for a period of 60 days, strikes and fundamental changes in conditions of employment were forbidden. Acceptance of recommendations of the emergency board of investigation was not binding on either party.

The Railway Labor Act of 1926 was amended in 1934. The National Mediation Board was supplemented but not supplanted by the newly created and permanent *National Railroad Adjustment Board.* The National Mediation Board was to function for the enforcement of the right of railroad workers to bargain collectively through representatives of their own choosing and for the formulation of new trade agreements in interstate commerce. The National Railroad Adjustment Board was to hear grievances and to adjust disputes arising from alleged violations of existing agreements.

In the prevention and settlement of labor disputes in interstate commerce the Federal Government has employed mediation, voluntary arbitration, and compulsory investigation. It has not as yet attempted compulsory arbitration, although America's entrance into the Second World War revived such a possibility in the event of a serious labor dispute in interstate commerce.

9. Intervention of Federal Government in Coal-mining Disputes.—The anthracite strike of 1902 marked a turning point in the history of labor relations within the United States. The Federal Government then extended its efforts in the adjustment of industrial disputes from its definite and explicit control over interstate commerce to its dubious and implicit power over intrastate industry. The entire country suffered so severely from this strike of anthracite miners in Pennsylvania that it came to be felt that the mines, as well as the railroads, were essential industries in which the public was vitally concerned.

In order to prevent a serious fuel shortage during the approaching winter, President Theodore Roosevelt threw aside precedent; he appointed, on his own initiative and without specific legislative authorization, the famous *Anthracite Coal Commission* of 1902. Both sides agreed to accept the verdict of the arbitrators, and the miners went back to

work. A great wave of popular approval showed that the time was ripe for decisive action of this sort in such a national crisis.

The Anthracite Coal Commission recommended in its final award that the President and the governors of the various states be given the power to appoint committees of compulsory investigation whenever industrial disputes of sufficient importance arose. A new function of government had developed, *viz.*, the promotion of better labor relations. The arm of the Federal Government had been extended from interstate commerce to intrastate industries of national significance.

Strikes in the coal-mining industry have been chronic; in later and recurrent crises, similar Federal commissions were appointed. Thus the bituminous-coal strike of 1919 was settled by the appointment and subsequent award of a commission of three members, one representing the miners, one the operators, and one the general public. The majority report, which was accepted by both sides, provided for a substantial wage increase and for the 8-hour day. In 1920, a similar commission was appointed by President Wilson to arbitrate a comparable labor dispute in the anthracite mines.

10. Federal Commission on Industrial Relations.—The Federal Commission on Industrial Relations was appointed under an act of 1912. Its purpose was to investigate the causes of industrial unrest in the United States. This commission was composed of nine persons, three representing employers, three representing organized labor, and three representing the general public. Under their supervision a corps of experts investigated economic conditions in various industries and in different parts of the country. Their report, made in 1916, stressed the importance of industrial peace by means of trade agreements within industry and by governmental machinery for mediation and voluntary arbitration; compulsory arbitration was not recommended as a general principle.

11. Establishment of Federal Department of Labor.—In 1913, the former Department of Commerce and Labor was split into its two component parts, from one of which the new U.S. Department of Labor emerged. This act of 1913 specified that the functions of the Department of Labor should include the adjustment of industrial disputes. Consequently, there was organized within the Department of Labor the *Bureau of Conciliation*, authorized to concern itself with industrial disputes in occupations other than those of interstate commerce, wherein the machinery for mediation and voluntary arbitration just described had already been provided.

The U.S. Department of Labor includes also the fact-finding *Bureau of Labor Statistics*, which makes numerous valuable studies of industrial relations and which maintains authoritative indices of wages, prices,

and costs of living. It publishes *the Monthly Labor Review,* which should be consulted regularly by all students of labor problems.

12. Labor Boards of President Wilson.—During the First World War, numerous emergency bodies were created to prevent or to settle industrial disputes. In 1917, for illustration, President Wilson appointed the *President's Mediation Commission* to investigate industrial disturbances. As the war progressed, it became increasingly necessary to plan the course of production and to conserve the resources of the country. The closer cooperation of labor and capital was essential for the successful prosecution of the war. In 1918, President Wilson appointed the *War Labor Conference Board,* consisting of five members representing the general public. This body was continued in the *National War Labor Board,* which remained in existence until after the armistice. In order to prevent strikes, the National War Labor Board agreed to many important demands of organized labor, but not to the general imposition of the closed shop.

After the First World War President Wilson called his first and second *National Industrial Conference* for the prevention of industrial conflict and for the promotion of industrial peace. His hopes of maintaining the cooperation between labor and capital engendered by the wartime emergency were not realized. Nevertheless, mediation and voluntary arbitration were fostered by a tripartite National Industrial Board, composed of three representatives of employers, three of employees, and three of the general public.

13. Labor Boards of President Franklin D. Roosevelt.—The improved status of labor and the increased strength of collective bargaining under the Norris-La Guardia Act of 1932 and the National Industrial Recovery Act of 1933 were followed, as was shown in the last chapter, by an increased number of labor disturbances. Many of these issues were due to conflicting interpretations of the new laws and to controversial practices followed under them. Charges of evasion and coercion were met by countercharges of labor dictatorship. Rival labor organizations claimed to be truly representative and to possess power to negotiate and to make binding agreements. In order to make rulings on moot points, to supervise elections, to facilitate negotiations, and to promote conciliation, it was necessary for the Federal Government frequently to intervene in industrial relations during this period of reconstruction.

These problems of industrial relations at first came directly under the National Recovery Administration, but the gigantic size of this task made necessary both the transfer of labor relations to a specialized body and decentralization through local and regional boards. The President of the United States was empowered, under the National Industrial Recovery Act of 1933, to investigate and to mediate labor controversies throughout

the United States. In accordance therewith a *National Labor Board*, somewhat similar to President Wilson's wartime labor boards, was created by President Roosevelt in 1933. In accordance with a joint resolution of Congress in 1934 and a subsequent executive order of the President, it was superseded in 1934 by the National Labor Relations Board.

The *National Labor Relations Board* was to continue during the remainder of the statutory life of the National Industrial Recovery Act. It was an impartial body consisting of three full-time salaried members who were to work in cooperation with the Department of Labor, although not subject to its jurisdiction. It was empowered to supervise the work of local and regional labor relations boards, then in existence or to be newly created. This board was empowered to investigate controversies arising under the National Industrial Recovery Act, to order and conduct elections, to investigate alleged violations and discriminations, and, "upon the request of the parties to a labor dispute, to act as a Board of Voluntary Arbitration or to select a person or agency for voluntary arbitration."

After the National Industrial Recovery Act had been declared unconstitutional by the Supreme Court of the United States in 1935,[1] Congress passed in the same year the National Labor Relations Act. As previously explained, this law, known also as the Wagner Act, reaffirmed the principle embodied in the National Industrial Recovery Act; *viz.*, the right of workers to bargain collectively through representatives of their own choosing. It continued the administrative machinery of the National Labor Relations Board to enforce this principle by holding elections to determine the union desired by the majority of workers and to supervise practices of collective bargaining. Its functions no longer include the mediation of industrial conflict or the promotion of industrial peace, but rather the enforcement of the right of collective bargaining and the adjudication of alleged violations of that principle.

The outbreak of the Second World War greatly stimulated our economic activity and radically changed its character. The United States became a vast arsenal for the belligerent democracies of the world, to whom we were pledged to lend or lease war materials. The necessity of increased and uninterrupted production was even more vital in the mechanized Second World War than it had been in the First World War. To prevent industrial conflict and to promote industrial peace President Roosevelt created in 1941 the *National Defense Mediation Board*, a tripartite body representing employers, workers, and the general public. Its functions were to mediate industrial disputes and to investigate causes of industrial conflicts in essential industries; it was to promote voluntary arbitration and to provide agencies for it when requested.

[1] *Schechter Poultry Corporation v. United States*, 295 U.S. 495, 1935.

The involvement of the United States in the Second World War required more drastic action. The National Defense Mediation Board was succeeded in 1942 by the *National War Labor Board*, an even stronger organization armed with still greater powers. Although antistrike legislation was avoided, temporarily at least, the National War Labor Board was given authority to prevent stoppage of production and to provide compulsory arbitration. As in the First World War, the patriotism of men and management produced immediate and increased cooperation. Controversial issues, like the closed shop, were avoided during the great national emergency and weapons of industrial conflict were sheathed for the duration of the war, but maintenance of union membership was sought.

14. State Boards of Mediation and Voluntary Arbitration.—By its pioneer law of 1878 Maryland was the first state to seek the adjustment of industrial disputes within its borders. Since that time most states have passed laws and created governmental agencies for the same general purpose. The administrative machinery provided may be classified as follows: local, district, and state bodies; temporary and permanent boards; commissions and commissioners; public officials and private citizens.

A report of the Bureau of Labor Statistics classifies this state machinery for mediation and voluntary arbitration into four general groups, as follows: (1) temporary boards of local character; (2) permanent local bodies established by private parties; (3) state commissioners of labor, who are authorized to interfere in industrial disputes in addition to other duties; and (4) special state boards or commissions. The first system, which is historically the oldest, has been of little value. Experience has shown that the second type is little better. Sporadic success has attended the third method. Of recent years, most states have adopted the fourth general type, introduced by Massachusetts and New York. Permanent state boards for intervention in industrial disputes have been fairly successful.

Mediation and voluntary arbitration are the respective stages followed and the usual methods employed in settling industrial disputes. After arbitration has been agreed to by both parties to the dispute, the acceptance of the award is compulsory under the laws of some states but optional in others. Voluntary agreement to arbitrate may or may not be accompanied by postponement of strikes and deferment of fundamental changes in conditions of employment during governmental investigation. Investigation may be compulsory or optional at the discretion of the commissioners. Considerable education is still necessary to induce the parties to local industrial disputes to bring their grievances before these state boards of arbitration and conciliation before resorting to lockouts or walkouts.

15. Compulsory Arbitration.—Although the Federal Government of the United States and most individual states have sought to promote industrial peace by means of mediation and voluntary arbitration, the experiment of compulsory arbitration was tried in Kansas. New Zealand, however, was the real pioneer in this field, for a law was passed there as early as 1894 which made strikes and lockouts misdemeanors.

a. New Zealand.—Compulsory arbitration in New Zealand did not supplant, but merely supplemented, conciliation. The system of administration was built up around what were known as "industrial unions." Any fifteen or more employees, any three or more individual employers, or any incorporated company might constitute such an organization. Existing trade unions were frankly recognized as parts of the system.

State officials known as "commissioners of conciliation" sought to mediate in industrial disputes. Where the efforts of the commissioner were futile, he organized a council of conciliation by asking each side to appoint the same number of assessors to serve with him on this board. This council suggested compromises and attempted to adjust differences.

In case of failure to reach an acceptable solution, an appeal was made to the *Court of Arbitration*, which was an important governmental tribunal. Its presiding officer was a judge of the Supreme Court, and the governor appointed one member to represent the employers and one to represent the employees. These two appointees were selected from the industrial unions of employers and of organized labor. This court of three members had full powers of investigation, and there was no appeal from its decision. The time limit of the award, always carefully specified, was generally three years. This award might also be applied to all similar workers in a specific industry and in a particular locality. Strikes or lockouts for the purpose of changing the conditions specified in the judicial award were illegal and punishable by heavy fines.

Although compulsory arbitration in New Zealand applied only to registered unions and registered associations of employers, it was almost universal. It was so successful during the first decade of its history that the country was sometimes referred to as "the land without strikes." During this period of prosperity and rising prices, most of the awards of the court were favorable to labor, in that they granted higher wages to keep pace with rising costs of living. But during the period of depression and falling prices in 1907, court awards were less favorable to labor and hence compulsory arbitration was viewed with dampened enthusiasm in a country where the hold of trade unionism was strong. In spite of the statute providing for compulsory arbitration, a number of illegal strikes took place. Amendments were passed in 1908 and 1914 providing for attachment of wages and for imposition of fines on registered

unions involved in illegal strikes. This coercive action was even more unpopular. Finally, in 1932, an amendment was passed which removed many of the compulsory features of the original act. Except for industries affected with a public interest, where sufficient notice must be given in advance, strikes are now again legal in New Zealand; this country has practically abandoned compulsory arbitration; it has returned to voluntary arbitration and mediation.

b. Australia.—The New Zealand experiment in compulsory arbitration was imitated in New South Wales and other states of Australia. In 1904, a Federal compulsory arbitration law was passed for the entire Commonwealth of Australia. Meanwhile, Victoria and Tasmania had accepted the system of compulsory wage boards. Although not doing away with the right to strike, the system of compulsory wage boards afforded a ready substitute for them.

c. Kansas.—In 1920, the state of Kansas introduced compulsory arbitration in certain industrial disputes. In New Zealand, strikes were illegal for registered unions, but, in Kansas, they were illegal for vital industries which seriously affected the public interest. The scope of compulsory arbitration was somewhat differently determined. The Kansas law forbade strikes in public utilities and industries producing such necessities as fuel, clothing, and food. Indeed, this drastic piece of legislation grew out of a serious coal strike.

The Kansas *Court of Industrial Relations* consisted of three judges appointed by the governor on the approval of the state senate. This body for industrial arbitration was unique in that it contained representatives from neither employers nor employees; the familiar tripartite composition was absent. The court was nonpartisan, but it lacked the knowledge and experience of practical employers and labor leaders. In spite of its judicial character, the functions of the Industrial Relations Court were largely administrative. It was given the powers previously held by the Public Utilities Commission and, later, those of the Industrial Welfare Commission and the Department of Labor.

In cases of industrial disputes, the Kansas court might investigate on its own initiative or on a request from either party or from a group of citizens. As a result of its findings, it might issue an order as to hours, wages, or general working conditions. The court was empowered to operate an industry during a labor crisis if conditions seemed to warrant such drastic action. For a defiance of its orders, the court could bring suit in the Supreme Court of Kansas. Fines and imprisonment might be imposed. Indeed, several mine leaders were sentenced under this act, later declared unconstitutional and subsequently abolished.

Although the right of labor to organize and to bargain collectively was not denied, the law prohibited strikes, lockouts, pickets, boy-

cotts, and other weapons of industrial conflict in essential industries. Although individuals might quit work themselves, they might not organize and induce other workers to do so collectively. Thus a union official was punished for contempt of court for disobeying an order not to call a strike after an injunction to that effect had been issued by a Kansas court. This verdict was sustained by the Supreme Court of the United States.[1]

The Kansas Court of Industrial Relations attracted tremendous attention throughout the United States as the first American experiment in compulsory arbitration. Organized labor consistently and insistently opposed the project. Within the state of Kansas, the Industrial Relations Court became a political issue in the autumn elections of 1922. The Democratic Party, which represented the opposition, was victorious at the polls. As soon as it came into control, it began to strip the court of its powers.

The Supreme Court of the United States[2] declared unconstitutional an attempt of the Court of Industrial Relations to fix wages and conditions of employment in the meat-packing industry. Such governmental regulation, however, was regarded as essential to compulsory arbitration. But the packing industry was not viewed by the Supreme Court of the United States as so vital to public welfare that collective agreement to strike therein was to be regarded as criminal. It was held that the police power of the state could not be invoked to support compulsory arbitration in such an industry in defiance of the Fourteenth Amendment. Although the constitutionality of compulsory arbitration was not denied in public utilities, the general application of that principle was regarded as a violation of the individual right of freedom of contract.

The Kansas Court of Industrial Relations, the first American experiment in compulsory arbitration, was abolished in 1925. Its duties and powers were transferred to a public-service commission, which continued to function with limited powers over labor disputes, but only within public utilities. Its chief powers became the usual ones of investigation and publicity. Compulsory arbitration within the United States was as brief as it was local; as unsuccessful as it was eventful.

16. Compulsory Investigation.—Although the compulsory arbitration of industrial disputes has not made much headway in America, both the Dominion of Canada and the United States, at least in some constituent provinces or states, have adopted other coercive features. These involve (1) compulsory investigation of labor disputes; (2) enforcement of awards which have been accepted by both parties to voluntary arbitration; (3)

[1] *Howatt v. Kansas*, 258 U.S. 181, 1922.

[2] *Wolff v. Court of Industrial Relations*, 262 U.S. 522, 1923; *Wolff v. Court of Industrial Relations*, 267 U.S. 522, 1925.

prohibition of sudden changes in fundamental terms of employment; and (4) mandatory advance notification of strikes or lockouts.

a. Canada.—The Canadian Industrial Disputes Act of 1907 made strikes and lockouts unlawful until after the causes of these disputes had been investigated by a governmental body appointed for that purpose and until after publicity had been given to the results of its investigation. Moreover, 30 days' notice in advance was required for any change or organized demand for a change in wages or hours of work. The law was applicable to public utilities and mines; it has been more successful in the former than in the latter industry.

By such an enforced delay, an opportunity has been given to each side to apply to the Department of Labor for the appointment of a tripartite board of conciliation and investigation. Strikes and lockouts were forbidden prior to the publication of the findings of this body, and penalties were imposed for violations of this industrial armistice. The postponement of industrial conflicts gave an opportunity for both mediation and investigation. The aim was to prevent strikes, rather than to settle them.

This Canadian law was attacked in the courts as unconstitutional; it was finally brought before the Privy Council of the Empire. In 1925, Chancellor Haldane held it to be an unconstitutional violation of the British North American Act of 1867, under which Canada is governed. Consequently, the original law of 1907 was amended. Its provisions now apply only to interprovincial commerce. Although the amended law is constitutional, it is limited in scope. This legislation proved so popular in Canada, however, that several provinces sought similar legislation for basic industries under their own jurisdiction.

b. Colorado.—The Colorado Industrial Commission Act of 1915 was similar to the Canadian Industrial Disputes Act of 1907. It provided for compulsory investigation and made strikes and lockouts illegal in the interim. The Industrial Commission was given the power to make an award, but its acceptance was not compulsory. Thirty days' notice had to be given before employers could make changes in conditions of employment, or before the workers could call a strike. This act was applicable to all large industries. Agriculture, domestic service, and small establishments employing less than four workers were exempt.

c. Other American States.—The laws of numerous American states provide for compulsory investigation of labor disputes by their governments, but without compulsory postponement of strikes and lockouts and without prohibition of sudden changes in conditions of employment. It may be contended that such legislation provides merely for mediation by the government; but, in reality, it does even more. The fact that the state board of investigation is empowered to take testimony without the

consent of either party to the labor dispute pushes the functions of government beyond those of mediation and into those of compulsory investigation.

17. Coercive Measures in Great Britain and Germany.—Great Britain and other European countries provided compulsory investigation of labor disputes and governmental agencies for conciliation and mediation. Commission findings were usually published, in order that the weapon of public opinion might be brought to bear on the more culpable or stubborn party to the industrial dispute. But, in general, there was neither temporary suspension of the right to strike nor the requirement of a preliminary announcement of essential changes in working conditions. In these respects, the Canadian Industrial Disputes Act was unique.

The German Republic was rather successful in preventing strikes and other industrial disturbances through mediation, conciliation, arbitration, and compulsory investigation. By a decree of 1923, Germany was divided into a number of districts, each of which had its chairman of an arbitration board appointed by the state. If the arbitrator failed to secure agreement in a labor dispute after bringing the parties together, he was to set up an arbitration board composed of himself, as chairman, and two members from the parties to the quarrel. Although an award by this board was not legally binding, the Reich Minister of Labor had the power to declare it so, if, in his opinion, the settlement appeared just and reasonable with due consideration for the interests of both parties and if its application seemed desirable for economic and social reasons. Triumph of the Nazis under Hitler terminated industrial democracy as well as political democracy in Germany. Labor unions gave way to labor battalions. Industrial conflicts ended in the industrial peace of the grave or the concentration camp.

18. Settlement of Industrial Disputes within Industry.—The adjustment of industrial disputes within industry by the parties themselves is more satisfactory and permanent than their arbitration by the state. The development of governmental machinery for the adjustment of labor disputes has been paralleled by the organization of similar institutions by organized labor and associations of employers.

While the states and the Federal Government have been acquiring greater power for, and wider experience in, improvement of industrial relations, even more significant has been the gradual evolution of parliamentary, judicial, and diplomatic machinery for collective negotiation between employees and employers themselves and for the settlement of industrial disputes within industry itself. Institutions of political democracy have been imitated by experiments in industrial democracy. Trade agreements and industrial representation are some of these manifestations.

19. Trade Agreements. *a. Nature and Function.*—Trade agreements result from collective negotiations between representatives of organized labor and associations of employers. A mutual understanding is achieved concerning wages, hours, and conditions of employment in a particular industry; this agreement is to hold good for a specified period, prior to the end of which another joint conference takes place. A trade agreement defines the accepted usages or conditions of employment within the industry.

Whereas individuals, real and fiduciary, make contracts, trade unions rarely do so in their collective negotiation. Trade agreements, in general, merely record mutually acceptable trade usages. Although these agreements define wages, hours, and other issues, they are not contracts. Although individuals contract with reference to trade agreements or usages, the contracting parties are the employer and the individual employees.

Trade unions are not business organizations, like industrial corporations, for they have nothing to sell and they are not organized for profit. Although an individual laborer sells his services, the trade union to which he belongs has not agreed to furnish a certain number of workers on the terms agreed.

The function of a trade agreement has been stated as follows in a court decision.

> Its function is to induce employers to establish usages in respect to wages and working conditions which are fair, reasonable, and humane, leaving to its members each to determine for himself whether or not and for what length of time he will contract with reference to such usages.[1]

The same court decision goes on to define a trade agreement as follows.

> It is merely a memorandum of the rates of pay and regulations governing, for the period designated, enginemen employed on the Chattanooga division of the company's railway. Having been signed by the appellee, it is evidence of its intention in the conduct of its business with enginemen on said division, to be governed by the wage and rules, and for the time therein stipulated. Enginemen in or entering its service during the time limit contract with reference to it.
>
> There is on its face no consideration for its execution. It is therefore not a contract. It is not an offer, for none of its terms can be construed as a proposal. It comes squarely within the definition of usage.[1]

The term "usage" is a legal concept, which has been defined as follows by another court decision:

[1] *Hudson v. Cincinnati N. O. and T. P. R. Co.*, 152 Ky. 711, 154 S. W. 47, 1913.

An established method of dealing, adapted in a particular place or by those engaged in a particular vocation or trade, which acquires legal force, because people make contracts with reference to it.[1]

b. Formulation.—Trade agreements then are formulations of current usages accepted by both representatives of organized labor and associations of employers. A compact is made concerning wages, hours, and conditions of employment in a particular industry, which is to hold good until another joint conference takes place. Trade agreements are practical, rather than idealistic. They do not attempt to harmonize the general interests of labor and capital. Instead, they endeavor frankly to face existing differences in a specific occupation and to achieve a workable compact under which the industry can be kept going. No representatives of the consumers are present to oppose an agreement for higher wages and to protest the resulting higher prices of the commodity produced. Trade agreements promote harmony within an industry, but the public may be forced to pay the bill.

The usual parliamentary filibustering, higgling, and political chicanery are present on both sides during the making of trade agreements. After both labor and capital have been forced to show their hands and to play their trump cards, a heated discussion takes place. Either of two things results. A compromise, determined by existing economic conditions, is effected, or a declaration of war is made. Loss of profits, on the one side, and loss of wages, on the other, are the sinister shadows which hover over the discussion. In order to prevent industrial warfare, each side generally yields on certain points, hoping that conditions will be more favorable in the next conference.

c. Enforcement.—Trade agreements of the well-organized and better paid industries are fairly well kept, despite the fact that there is generally no legal weapon for their enforcement. The failures of some joint conferences to make and to keep satisfactory trade agreements should not be interpreted by critics as proof of their inherent inability to function successfully as devices for securing industrial peace.

In order that trade agreements may be interpreted and maintained, some of them are accompanied by provisions for arbitration. Such arbitration within industry itself may be accomplished by judicial bodies composed of employees and employers. It may be accomplished also by the good offices of an impartial but informed umpire, who applies the general policies formulated in trade agreements to the individual cases in dispute. Such a policy makes for efficiency and the swift disposition of cases. It prevents joint conferences from becoming cluttered with details and delayed by interpretations of minor matters. It is also

[1] *Byrd v. Beall*, 150 Ala. 122, 43 So. 749, 1907.

democratic and in line with governmental practices under which the elected and representative legislature determines general policies, which the appointed administrator carries out and applies to specific cases.

20. Illustrations of Trade Agreements. *a. Coal Mines.*—The union coal mines have long operated under the joint-conference system, and their trade agreements are fairly typical. A joint conference, attended by several hundred delegates, is held from time to time. The number of representatives from both sides has been reduced, and a large share of the important work is now done in committee. A unanimous vote of the conference, however, is necessary for any momentous decision. In this great industrial parliament, representatives of the miners sit on one side and representatives of the operators on the other. Although the public may attend most of the sessions, they are not permitted to have representatives on the floor; a nonpartisan view is rarely expressed. These joint conferences often have no machinery for the arbitration of controversial points. Failure to come to an agreement has meant industrial warfare in the union coal fields.

b. Needle Trades.—Trade agreements have been common in the clothing industry since 1910. These are significant, first, as determining fundamental standards of labor throughout the needle industries, and, second, as devices for the adjustment of industrial disputes. The parties to the agreement ratified the preferential union shop, *i.e.*, one which maintained union conditions and which employed union workers in preference to nonunion workers. Before the passage of the Federal wage-and-hour law, the 44-hour week was accepted; overtime was restricted and paid for at preferential rates; and homework was proscribed. An attempt was made to minimize the seasonal aspect of the clothing industry by spreading work throughout the entire year and by guaranteeing a certain number of days' work, or, in lieu of that work, minimum annual earnings. Contractors were to be registered and to be held responsible for conditions within their shops. In order to eliminate insanitary surroundings and sweat shop conditions within New York City, there was organized a Board of Sanitary Control.

c. Other Industries.—The railroad brotherhoods have had trade agreements with the railroad companies, in addition to the governmental machinery for mediation and voluntary arbitration previously described. A trade agreement was formulated also in the printing industry by the International Joint Conference Council of the Allied Printing Trades. The Stove Founders' National Defense Association and the Iron Molders' Union of North America early entered into trade agreements for the elimination of disastrous strikes through annual conferences of representatives of employers and employees; strikes and lockouts were forbidden in the meantime.

Summary.—The economic losses and social costs of industrial conflicts are so tremendous that their prevention and settlement are imperative. Industrial cooperation must succeed industrial warfare.

Industrial disputes may be adjusted directly by the parties themselves or through the intervention of government. Methods of governmental action include mediation or conciliation, compulsory investigation, and voluntary or compulsory arbitration. Mediation is diplomatic, for its aim is to help the disputants settle their own difficulties. Arbitration, however, is judicial, because an award must be made by a board of arbitration. The acceptance of arbitration may be voluntary or compulsory, and the acceptance of the award may be voluntary or compulsory. Voluntary decision to arbitrate with voluntary acceptance of the award is no more than mediation or conciliation. Compulsory arbitration with voluntary acceptance of the award is, in effect, compulsory investigation.

Frequent failures of mediation and conciliation to prevent or to terminate strikes have led to the advocacy of coercive measures. Compulsory investigation permits an impartial study of the causes of industrial unrest, a wide dissemination of the recommendations of the experts employed, and an appeal to enlightened public opinion for improvement.

Compulsory arbitration goes even further, as it makes binding the award of the commission. This assumes the existence of definite standards of justice in the matters of wages, hours, and working conditions; it requires wage boards for their codification and enforcement. Organized labor has opposed compulsory arbitration because of its denial of the right to strike.

Compulsory arbitration through wage boards functioned fairly well for some years in New Zealand and Australia. It was tried in Kansas, where it was soon abandoned and declared unconstitutional as a general principle.

Compulsory investigation may or may not involve postponement of the right to strike. The latter feature was embodied in the laws of Canada and Colorado.

Joints industrial councils are meetings of representatives of employers and of labor organizations for the formulation of trade agreements. These define the current usages or the generally accepted conditions of employment in a particular industry for a specified period of time. They are the bases for individual contracts between employers and employees or for collective contracts between responsible parties. Trade agreements may also contain provisions for the arbitration of industrial disputes and for the adjustment of individual grievances.

Questions for Discussion

1. *a.* Distinguish between mediation and arbitration.
   b. Contrast their relative advantages and disadvantages.
2. *a.* Differentiate between voluntary and compulsory arbitration.
   b. Outline various steps in each.
3. Indicate the objectives, advantages, and limitations of compulsory investigation.
4. Explain the methods used in Canada and Colorado to promote industrial peace.
5. Justify or criticize compulsory arbitration of labor disputes.
6. Explain and compare the machinery for compulsory arbitration used in New Zealand and Kansas.
7. Trace the evolution of mediation and voluntary arbitration by the Federal Government in interstate commerce.
8. What are some distinctive features of trade agreements?
9. Illustrate trade agreements in the mining or clothing industry.
10. Differentiate among usages, contracts, and conspiracies.

Topics for Investigation

1. Governmental machinery for better industrial relations in your own state.
2. Promotion of industrial peace during the First and Second World Wars.
3. President Wilson's first and second industrial conferences.
4. Labor relations boards of President Franklin D. Roosevelt.
5. Compulsory arbitration in New Zealand and Australia.
6. Kansas Court of Industrial Relations.
7. Compulsory investigation of labor disputes in Canada and Colorado.
8. Views of organized labor toward compulsory arbitration.
9. Trade agreements in the coal mines.
10. Trade agreements in the clothing industry.
11. Trade agreements in some other industry with which you are familiar or in which you may be interested.
12. Enforcement of trade agreements.

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PART FIVE

THE APPROACH OF THE EMPLOYER

Chapter XVIII. Scientific Management and Personnel Administration, *Industrial Efficiency and Social Welfare.*
Chapter XIX. Employee Representation and Profit Sharing, *Industrial Democracy and Industrial Autocracy.*

CHAPTER XVIII

SCIENTIFIC MANAGEMENT AND PERSONNEL ADMINISTRATION

INDUSTRIAL EFFICIENCY AND SOCIAL WELFARE

1. Labor Turnover. *a. Nature.*—"Labor turnover" is the proper term for what is popularly known as hiring and firing within industry. It is change of personnel within a business organization.

Labor turnover is generally expressed as a percentage or as a ratio between the number of people employed and the number of positions existing in an organization. For example, an annual labor turnover of 300 per cent would signify that during the year, on an average, three people were employed for every position in the plant. Although some individuals remained constantly at their posts, many individuals came to and went from other positions.

Unemployment means no work, but labor turnover means change of work. Although there may have been no stoppage of work within a particular industry, locality, or period, such continuity of employment does not imply that the same people held the same jobs. Individuals may have been irregularly employed and may have gone from one position to another. Although the stream of employment may have flowed continuously, its human composition of particular workers in specific positions may have altered frequently and greatly.

b. Social Significance.—Studies have shown that an annual labor turnover from 200 to 400 per cent has not been unusual, even in ordinary times. In periods of readjustment, such as those to and from national-defense industries, labor turnover is far greater. Hence this problem may be as serious as that of unemployment. Moreover, unemployment or irregular employment may exist along with excessive labor turnover, although unemployment is most serious during a period of business depression, whereas labor turnover is excessive in a period of industrial readjustment or recovery. Their social aspects, however, in industrial inefficiency, economic waste, and human costs are similar.

Labor turnover has social significance also as a reflection of industrial unrest. People express their dissatisfaction with working conditions passively and individually by quitting their jobs, as well as actively and collectively by walking out on strikes.

c. Forms of Labor Turnover.—Labor turnover may be any one of three general types: a general layoff of all workers, a discharge of particu-

lar individuals, and a voluntary quitting of certain employees. Although it is difficult to classify every separation of an individual from his job, most studies of the problem seem to indicate that the third type of labor turnover is greater than the other two types combined. The relative proportion of these different types of labor turnover varies in periods of depression and periods of prosperity. During periods of depression and unemployment, the relative proportion of layoffs is greater; but in periods of prosperity, the relative proportion of voluntary separations is greater.

d. Causes.—The causes of labor turnover, like those of unemployment, may be approached from either the individual or the environmental aspect. Among the personal causes of excessive labor turnover are such factors as illness, a migratory tendency, or an uncongenial disposition. Within the environment are such economic and social factors as those which contribute to the general problem of unemployment; they were discussed in Chap. XII.

An important cause of excessive labor turnover is the absence of a sound personnel policy or the presence of glaring weaknesses in industrial management. Poor methods of hiring and placing workers, autocratic management of industry, lack of financial or nonfinancial incentives to increased production, presence of unfavorable working conditions, absence of recreational facilities, and lack of vocational education are other direct or contributory causes of excessive labor turnover.

Skill and sex are also important factors in this problem. The rate of labor turnover is higher for unskilled workers than for skilled workers. Perhaps the superior organization of skilled workers makes it possible for them to shape somewhat better their conditions of work and to hold more securely their places of employment. The common laborer may be discharged with impunity, for his place is easily filled; he can express his dissatisfaction with his job only by quitting work, after which he must blindly grope about for other employment. It would also seem that labor turnover is less among women than among men, in spite of the common assumption that women are merely loaned to industry.

e. Effects.—A certain mobility of labor is necessary to permit competition among employers to smooth out wage irregularities in different industries and to improve general working conditions. Some change of occupation is desirable for men seeking to improve their positions and to rise from one labor group into another. But much labor turnover is a mere change in personnel and an exchange of jobs without accomplishing these objectives.

The effects of excessive hiring and firing both on the individual worker and on industry in general are similar to those of unemployment and industrial conflict. The laborer may lose as many working days because

of a frequent change of jobs as because of a long shutdown of the plant; he is apt to lose more time because of labor turnover than because of strikes or lockouts. Our previous discussion of the effects of unemployment and of industrial conflict makes unnecessary any lengthy treatment of the effects of excessive labor turnover. It will be sufficient to note that labor turnover causes industrial inefficiency, which, in turn, causes a still greater labor turnover. The frequent changing of jobs with intervals of idleness between them is demoralizing to the individual worker, because it destroys steady habits of thrift and industry.

Stability of personnel is a vital factor in efficient production. Excessive hiring and firing is wasteful and expensive. The cost of breaking in a new employee varies in different industries, but it has been estimated at from $25 to $100 for ordinary semiskilled labor.[1] Consequently, excessive labor turnover causes a tremendous drain and a severe strain on the industry in which it flourishes.

f. Reduction of Labor Turnover.—The mitigation of labor turnover, like the reduction of unemployment and the prevention of industrial conflict, is an important problem of industrial management. Its serious social aspects likewise are ameliorated by a more enlightened policy of management, such as the establishment of personnel departments and the installation of pension systems, welfare work, and employee-representation and profit-sharing plans. Such a program of the liberal employer will be discussed in these two chapters of Part V.

Between the First and the Second World Wars considerable reduction of labor turnover, if not of unemployment, was achieved. This was due, in part, to the modern and enlightened policy of management and, in part, to changed economic conditions. Good jobs were not easy to obtain in the industrial reorganization which followed the First World War. In the period between 1921 and 1929, the volume of employment did not keep pace with that of production. In the depression from 1929 to 1933, unemployment was rampant and a job was something to be held as long as possible. With industrial recovery in the early thirties, industrial conflict in the middle thirties, and industrial rearmament in the late thirties, the problem of labor turnover became aggravated.

2. Methods of Remuneration. *a. Labor Costs.*—Part II distinguished between money income and real income and between wage rates and actual earnings. It will be remembered that wages are payments for short periods of time or for particular tasks accomplished, whereas earnings are amounts paid for longer periods of time or for aggregate tasks accomplished. Wages afford scales for computation, but earnings are actual pay checks or cash in the pay envelopes.

[1] ALEXANDER, M. W., "Hiring and Firing," *Annals of the American Academy of Political and Social Science*, vol. 67, p. 135, 1916.

Labor costs are pay rolls in relation to production. They are ratios between what workers get and what workers do. Management is interested not so much in lower earnings as in lower wages per unit of product. Putting it positively rather than negatively, employers are favorable to higher earnings provided that production is increased proportionately or more than proportionately. Profits are menaced not by high wages but by excessive labor costs. It is possible and desirable to have large earnings despite low labor costs.

Management favors any system of payment which serves as an effective stimulus to increased production and which is not accompanied by corresponding waste or deterioration in quality. On the other hand, the employee is opposed to any system of wage payment which tends to reduce total earnings or wages per unit of output. Organized labor, we have seen, opposes management's attempt to drive workers by pace setting; it therefore views with suspicion financial incentives to step up their efforts. Under the lure of higher wages for increased production, workers are tempted to speed up or to work overtime until physical exhaustion or permanent impairment of health results.

b. Time and Piece Wage.—The two basic systems of remuneration are the time and the piece wage. Other methods are modifications of these fundamental forms of wage payment. Under the time-wage system, the basis is a unit of time, such as an hour, a day, or a week. Salaries are time wages expressed per month or per year. Under the piece system, the unit of payment is a specific amount of product. Professional fees and commissions resemble piecework payments.

Time wages are used where the measurement of output of an individual worker is difficult, as in construction work done by unskilled laborers. With time wages it is customary for the employer to attempt to quicken the workers who seek to adjust their pace to that of the slower workers. Reliance is placed on foremen, who have been termed "the first line of defense of industry." In the past, foremen have often been selected, like the slave overseers of antiquity, because of their power to drive the workers to increased productivity. Verbal abuse and the threat of prompt discharge have been used as whips on the backs of the idle, the slow, and the inefficient.

Piecework is common among the semiskilled operators of machines, where dexterity in simple operations is required, but where real skill and expert craftsmanship are not involved. With the substitution of piecework for time payment, the inspector replaces the foreman and time clerk. He passes on the quality of the product; the number of accepted pieces determines the amount of earnings. Piecework is less conducive to soldiering on the job than is time work. Hence employers have sought to introduce it wherever possible.

Although the individual worker may favor piecework because of the lure of greater earnings, organized labor has often been hostile to this system. It encourages speeding up workers and it is easy of abuse. After production per worker has been increased, management has often cut the rate per piece. Either the employee must suffer a loss of earnings or he must speed up to a still higher level of production. Wherever the piece rate could be fixed in a rather arbitrary manner by the employer, the greater efficiency of the workers has often been penalized by a cut in the piece rate. Bitter past experiences have made the workers suspicious that any changes in methods of computing piece rates may be devices to cut down their actual earnings.

The development of scientific management has stimulated job analyses; it has pioneered in motion and time studies. The scientific determination of a fair day's work or a fair piece rate has made subsequent rate cutting less likely than in former years. Nevertheless, "new conditions," "unusual circumstances," and "temporary emergencies" continue to furnish excuses for rate cutting.

Piecework has been opposed for economic, as well as humanitarian, reasons. It has been charged that it sacrifices quality of product to quantity. This natural tendency is further increased by corruption of inspectors. In the manufacture of munitions for a foreign government during the First World War, for illustration, it was found that a preposterously large portion of the "inspected" ordnance was worthless.

c. Task Wages and Premium Plans.—The task wage is a compromise between the time and the piece system. Wages are fixed on a time basis; but unless the worker performs a certain standard amount of work within the allotted time, he suffers a corresponding loss of earnings. This system was in vogue some years ago among the Jewish clothing workers, where it intensified the sweatshop evils.

Premium plans also are compromises between time work and piecework, but, in contrast to the task-wage system, premium plans are positive, not negative. There is an existing wage scale based on either the time or the piece system. A standard amount of output or a given period of time is agreed on as the basic unit; an excess of production, an increase in speed, or overtime beyond this previously agreed upon standard is rewarded by an addition to the regular wage.

The development of scientific management and personnel administration has been accompanied by the formulation of many premium plans and bonus systems. The Halsey premium plan will serve as an illustration. Standard times are set for jobs and a bonus or premium is offered to every worker who saves time on the job. But the bonus does not represent full wages for the time saved, as under straight piece rates, but only a fraction thereof, such as one-third or one-half. If the worker does not

save on the standard time or fails to do the work in the allotted time, he receives merely his hourly wage.

3. Scientific Management. *a. Nature.*—Scientific management is an attempt to apply the experimental method to industry and to measure results. It has sometimes been interpreted as a later phase of the industrial revolution, which, in turn, grew out of the earlier "age of enlightenment." Scientific management represents a further advance in technology, *i.e.*, in the application of science to the problems of economic production. The material aspect of modern technology is power machinery; its nonmaterial aspect is improvement in industrial processes.

Scientific management seeks to discover by objective investigation what method of doing a particular piece of work is most efficient, *i.e.*, which yields the maximum of production with the minimum of effort or waste, after which the industrial process or business organization is standardized in accordance with the approved technique. Scientific management compares its results with those of traditional methods; it discards guesswork and "rule of thumb" in favor of "the best by test."

b. Motion and Time Studies.—The great pioneer in scientific management was Frederick Taylor, who may justly be given the title of "the first efficiency engineer." He became interested in the subject because of his observation of the common tendency of workmen under modern conditions to shirk or "to soldier on the job." Taylor ascribed this tendency to ignorance on the part of both employers and employees as to what constituted a fair day's work. He sought to determine this standard in concrete cases by the process of scientific experimentation.

In order to secure a fair day's work with maximum production, it was found necessary to study, to improve, and to standardize industrial processes. It was no longer possible to leave to the workman the details of how he should work. Taylor's famous motion and time studies led him to the conclusion that many laboring operations were inefficient but capable of improvement.

Scientific management discovered that the laying of bricks, for illustration, was done in a haphazard manner. The necessary motions of bricklaying were, therefore, carefully planned into what seemed the most efficient routine; waste movements were eliminated. The skilled bricklayer was relieved of certain tasks, such as carrying hods and adjusting scaffolds, which could be performed by unskilled labor. Similar motion and time studies revealed that even the common operation of shoveling was not a single task, nor was it efficiently done; shovels of various sizes and shapes were required for different types of work.

c. Essentials of Scientific Management.—Scientific management requires a carefully laid-out plant to facilitate the smooth, continuous, and rapid flow of work. It involves the introduction of improved machinery

and the use of those industrial processes which have proved to be most efficient. Scientific management schedules carefully the work of each laborer and every machine.

Another essential is the transfer of function, direction, and method from workers to management. Routine work is separated from exceptional work. The latter is the function of management or of specially trained workers, whose time should not be spent on mere routine matters which require little skill or judgment. This great increase in the functions of management requires especially prepared assistants or "functional foremen."

Scientific management requires also the keeping of careful records, the results of which should first be analyzed and then be utilized. Cost accounting is necessary to the scientific management of industry.

After improving the general conditions of work and raising labor to a high point of efficiency, a standard day's work is generally decided on for a specific operation. A scaled bonus above the current wage rate may be given to a worker who finishes his task in less than the allotted time.

d. Fundamental Principles.—Taylor enumerated four underlying principles of management: (1) development of a true science of industry, (2) careful selection of workmen, (3) their further education and development, and (4) intimate friendly cooperation between management and men.[1]

Although Taylor was the father of scientific management, his writings do justice neither to himself nor to this important movement. A modern student has restated in the following brief form the essential principles of scientific management as enumerated by Taylor.

A. The improvement and standardization of the productive organization and of the material equipment of the plant. This involves the rearrangement of the plant equipment to secure the quickest routing; the reorganization of the managerial force on the basis of the division of function; the use of cost accounting; the improvement of storekeeping methods and the adoption of economic systems for classifying implements and manufactured products; the development of measuring devices such as the slide rule and various other improvements over existing practice.

B. The improvement and standardization, for each job, of the acts or movements of workmen. Under the systems of management commonly in vogue, the management does not and cannot know that great mass of traditional and habitual rule-of-thumb knowledge which workers use; it can, therefore, give them little help or advice and must leave them to carry out each task as they see fit. But "among the various implements and methods used" there is always one method and one implement which is quicker and better than the rest; and this one best method and best implement can be discovered and developed only

[1] TAYLOR, F. W., "Principles of Scientific Management," p. 69.

through scientific study and analysis of all the methods and implements in use, together with accurate, minute, time and motion studies.

C. The standard task, based on an elementary time study and assigned by the planning department. The first uses of time study are in the elimination of unnecessary motions, the standardization of the operation, and the assignment to unskilled laborers, when possible, of routine operations not requiring skill. After the improvement of methods the movements are, if it seems necessary, timed again. The planning department then fixes a standard time—a "task"—for each operation, based on observation of the minimum, average, and longest times required for the operation. Then an instruction card is made out, informing workmen what motions to perform and what standard task has been set up.

D. Functional foremanship in which the single supervisor is replaced by a number—ideally seven—of specialized teacher-supervisors (inspector, gang-boss, speed-boss, repair-boss, time clerk, routing clerk, and disciplinarian) and the management substitutes friendly cooperation with the workers for the suspicious driving of the system inherited from the entrepreneur industrial organization.

E. The differential wage—a "bonus" or higher piece rate—is given to the worker who makes or exceeds the set task.[1]

e. Results and Possibilities.—The advantages of scientific management, like those of machinery, should accrue to the employer, to the employee, and to society in general. Technological progress represents superior economic adaptation, and increased production means greater real income. Hence scientific management should result in higher planes of living for all, unless its gains are concentrated and not diffused. Its benefits to labor should be reflected in shorter hours, higher wages, and lower prices.

Taylor claimed such results for his early experiments in scientific management. He wrote as follows:

> At least 50,000 workmen in the United States are now [1911] employed under this system; and they are now receiving from 30 to 100 per cent higher wages daily than are paid men of similar caliber with whom they are surrounded, while the companies employing them are more prosperous than ever before. In these companies the output, per man and per machine, has, on the average, been doubled. During all these years there has never been a strike among the men working under this system. In place of suspicious watchfulness and the more or less open warfare which characterizes the ordinary types of management, there is universal friendly cooperation between the men and management.[2]

Numerous illustrations could be cited to show how the introduction of scientific management resulted in greater production and higher wages. One of Taylor's followers, for illustration, made astonishing progress in the simple and repetitive occupation of bricklaying. After training

[1] TUGWELL, R. C., "Industry's Coming of Age," pp. 31 and 32.

[2] TAYLOR, *op. cit.*, p. 28.

workers in the new methods, an average of 350 bricks per man per hour, as compared with the former average 120 bricks, was achieved.

Professor Irving Fisher summarized the case for scientific management as follows:

> As an economist I would stress particularly the value of scientific management to labor—when as a matter of course, scientific management is as universal as the telephone or newspaper—I have little doubt that the welfare of labor will be double; in short that real wages will be twice as high as at present. In the end, labor gains the most from so-called "labor saving devices." Increased production means simply increased income to society, and the wage earner as a class usually profits the most in the end.[1]

f. Objectives and Criticisms.—Scientific management has two objectives. The first consists of the systematization of industry by the introduction of improved and standardized methods of production. It separates managerial functions from laboring operations, handwork from brain work, and skilled labor from unskilled. The second objective is psychological rather than technological, for it consists of devices designed to stimulate the worker to increased production. The second objective of scientific management is difficult to separate from the first, but it is the chief source of opposition on the part of labor.

Efficiency has been defined as maximum output with minimum effort. Scientific management has stressed the first factor but often ignored the latter. Moreover, workers resent being treated as automatons; they rebel against being driven to the limits of their physical and mental capacity. Maximum production from a machine is a different problem from maximum production from a human being.

g. Opposition of Labor.—The chief objection of the worker to scientific management comes from his fear that it is merely a ruse of the employer to speed up his employees to their utmost exertion. The worker is frequently obsessed with the familiar lump-of-labor fallacy; he fears that scientific management will rapidly lessen the total volume of work to be done and thus increase unemployment.

Organized labor also regards scientific management as a subtle attempt of employers to weaken labor organizations. Again, its primary aim—increased production—is the very opposite of the union's policy of limitation of output. These opposing objectives of management and organized labor raise the questions whether a fair day's work is the same for all workers, and, if so, whether it can be determined by either the trade union or the efficiency engineer. Human differences are such that any leveling-up or leveling-down process may work individual hardship and injustice.

[1] Irving Fisher, in an address delivered Dec. 4, 1924, before the Taylor Society.

Some spokesmen of organized labor further contend that scientific management tends to reduce the mass of workers to the ranks of the semi-skilled, who take orders from functional specialists. Indeed, this new functional arrangement may be just as autocratic as the former "military" organization of industry. Scientific management is viewed as undemocratic also because of the temptation to fit men to their jobs, rather than to place men in jobs for which they are best fitted by nature and previous training.

In the last place, the complex character of modern industry makes it difficult for a worker to see the direct benefits to himself of improved methods in industry. He contends that, in the division of the gains of scientific management, the employer has received the lion's share. He fails to visualize the general diffusion of its indirect benefits in the form of lowered prices for many commodities which he himself purchases. The worker can see only that under scientific management he suffers increased mental and physical strain without compensating gain in the form of a shorter working day. Slightly higher wages are little compensation for a shortening of his working life and an early dismissal to the scrap heap of industry.

Taylor feared the result of a sudden increase of wages. His experiments proved to his own satisfaction that an increase in wages up to 60 per cent was beneficial, but increases beyond that point were conducive to shiftlessness, extravagance, and dissipation on the part of the workers. Organized labor has resented this statement and has contended that, in the distribution of the gains of scientific management, the worker has rarely had an opportunity to test the effects of any great or sudden increase in wages.

h. Indictment of Scientific Management.—Labor's opposition to scientific management has been summarized strongly as follows:

> The model workman, from the standpoint of the typical efficiency engineer, is the vigorous man who freely expends all of his surplus energy during the working hours and who utilizes his non-working hours only for recuperation and preparation for another day's work. It is not the purpose of efficiency engineering to allow the worker to depart from the door of the factory at night with more than a minimum of surplus energy for recreation, for family life, for civic duties, or for trade-union activities. In short, there is little in the actual program of efficiency engineering which indicates that the wage earner is to be given opportunity for individual development and the various paternalistic endeavors classified as welfare work have not been overlooked. A human machine rather than a man is the "model workman." One also finds little, or more accurately, nothing, in Mr. Taylor's book which indicates that he appreciated or sympathized with the viewpoint of the wage earner. Even the slave-holder of ante-bellum days was interested in "welfare work." But, of course, the slaveholder was

interested in the matter purely and solely for the purpose of increasing the efficiency of the slaves or of reducing the cost of production.[1]

This indictment of scientific management was truer a decade ago than it is today. The new, as compared with the old, scientific management represents human, as well as mechanical, engineering in industry. Constant improvements in the plant have been sought in the interests of human welfare, as well as in the interests of industrial efficiency. Moreover, these two ideals have been found to be reconcilable and closely associated, rather than conflicting and irreconcilable. Improved working conditions make for increased industrial efficiency, as well as greater social welfare. Devices to protect the workers' safety and health and to reduce the strain and annoyance of modern industry, discussed in Chaps. IX and XI, are in no small measure the product of the efficiency engineer.

4. Personnel Administration. *a. Nature and Aims.*—Scientific management has been supplemented by personnel administration, which has been defined as the "direction and coordination of human relations of any organization with a view to getting the maximum production with a minimum of effort and friction, and with proper regard for the genuine well-being of the workers."[2] The best technical processes and the most scientific methods in industry will not reach their full fruition if the human element is ignored. Unhealthy, maladjusted, and discontented employees are less efficient than healthy, harmonious, and happy employees.

The motion and time studies of early scientific management made the mistake of viewing industrial relationships as mechanical and material, rather than as psychological and human. Personnel administration added industrial psychology to industrial engineering; it supplemented the economic ideal of efficient working with the social ideal of happy, harmonious living. It broadened the scope of management from relations between the worker and his job to relations between the worker and his fellow workers, employer as well as employees. It extended the interest of management from working conditions of employees to their living conditions.

The triple concern of personnel administration is the improvement of relations between the worker and his work, between the worker and his fellow employees, and between the worker and his employer.

Personnel administration seeks to improve general working conditions of a plant so that the health, comfort, and safety of its workers can be advanced. It seeks to reduce excessive labor turnover by a more careful selection, placement, and education of workers. It also strives to eliminate friction between men and management and to promote better indus-

[1] CARLTON, F. T., "History and Problems of Organized Labor," p. 253.
[2] TEAD O., and H. C. METCALF, "Personnel Administration," p. 2.

trial relations. Finally, personnel departments usually administer welfare programs among employees.

b. Services of Personnel Departments.—Personnel administrators first make job analyses of various positions within a particular plant, and then draw up careful specifications concerning the personal and technical qualities necessary for the successful performance of each occupation. With such a check sheet before him, the personnel officer can examine the specific skills and techniques and the general mental, physical, and moral qualities of each applicant, as revealed by an oral interview, a written examination, a practical test, and a careful scrutiny of references. Such an examination seeks to eliminate unnecessary hiring and firing and excessive labor turnover by a careful selection of employees. Again, it reduces dissatisfaction and industrial unrest by a more careful placement of the employees selected.

The discharge and promotion of workers were formerly as arbitrary as their methods of employment and placement. A good worker might be dismissed summarily because of some whim, prejudice, or personal grudge of his foreman. It is true that discipline must be maintained if an industry is going to function effectively. The viewpoint of the foremen and other minor executives must be considered, but their power of discharge should not be absolute.

The personnel department should supervise promotions as well as dismissals. Industrial unrest results not only from unwarranted discharges, but also from unmerited advances. The personnel department should strive to formulate standards of efficiency and to keep records of performance of various workers within the plant. Different schemes of rating have been devised for various types of workers. Although they are easy targets for adverse criticism, such attempts seem like a step in the right direction. Imperfect methods of rating are probably better than none at all.

Transfers within a plant are another important function of the personnel department. A man may be a misfit rather than a total failure. Before being discharged as incompetent, he might be tried at another kind of work within the same factory. Thus a worker comes to feel that management is interested in his individual welfare and that big business is not utterly impersonal. By such activities the personnel department can develop an industrial *esprit de corps* and a loyalty to the organization which will show themselves in increased production and decreased waste.

The personnel department may also perform educational work in the aims and processes of industry. It may give to selected applicants brief courses of training to promote efficiency in their prospective jobs. This may help the individual worker to visualize the relationship of his

particular task to the industry as a whole and may reduce, somewhat, the stultifying character of modern specialized and mechanized production.

Unlike the older type of scientific management, which widened the gulf between men and management, modern personnel administration stresses industrial morale, as well as industrial efficiency. It serves as a clearinghouse in which petty grievances can be discussed and eradicated.

c. Organization of Personnel Work.—As conditions vary greatly in different places, no standard plan of organization can be given for personnel work. Moreover, the human equation is ever present. In its final analysis, the best plan of personnel administration is the one which

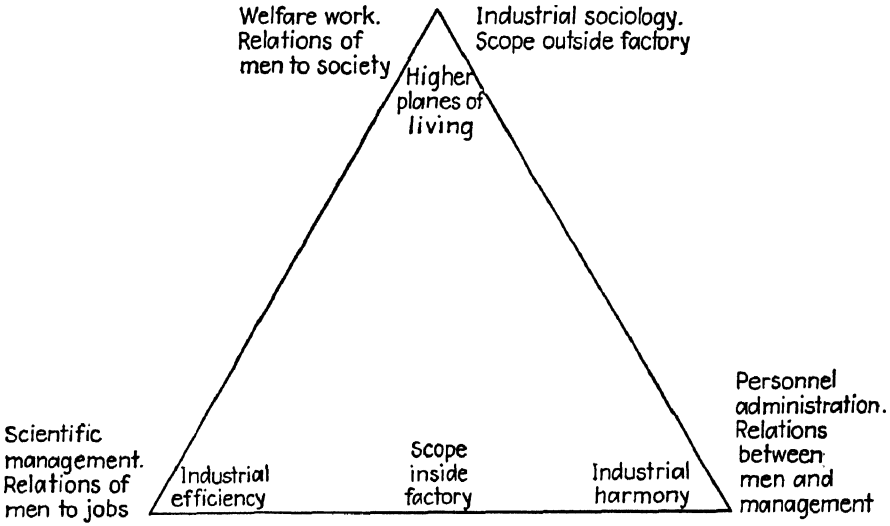


CHART 46.—Programs of employers.

produces the best results for a particular group of individuals under a specific set of conditions. Although details of administration should be elastic, it is important that responsibility be centralized in a specially trained official or in a definitely established personnel department.

Subdivisions or committees of a personnel department depend on the extent of its work. In addition to the fundamental functions of employment, placement, promotion, transfer, and dismissal, there may be divisions on industrial relations, health, safety, welfare, and education.

Successful personnel work is conditioned by an appreciation of physiological, psychological, and sociological factors in industry, just as efficient industrial management or production requires an engineering background, and effective business administration or distribution necessitates an economic background. Personnel administration calls not only for special training, but also for exceptional personal qualities of sound

judgment and intelligent leadership. Failure will be the result of incompetence.

Close contact must be maintained with both men and management, in order to get the point of view of both sides on a given matter. No project should be undertaken without first understanding and then explaining its objectives. Knowledge and sympathy are essential to the success of all plans of the personnel department. A mediocre scheme which emanates from suggestions of the workers may fare better than a superior device which they regard as superimposed on them. Committees of the workers themselves are necessary for the successful administration of such welfare programs as the personnel department may see fit to develop. Personnel work is educational as well as social, and care should be exercised not to expand until the ground is carefully prepared in advance.

5. Welfare Work. *a. Nature and Scope.*—The extension of the functions of management beyond the factory walls into the leisure time of the workers has been termed "welfare work." It has been defined by Professor Commons to include "all those services which any employer may render to his work people over and above the payment of wages."

The first stimulus to welfare work came from the employment of women and children within factories and mercantile establishments, but it later spread to other groups of workers. It also went from production to consumption, from industry to the home, and from working conditions to living conditions. The concept of the functions of management and the concern of the employer have widened far beyond increased and improved industrial production. Management is now regarded as having social, as well as economic, responsibilities.

Various welfare schemes that have been developed include housing, recreation, education, health, safety, and thrift projects. They are generally operated under the personnel department, usually by joint committees representing both employers and employees. They are sometimes accompanied by schemes for profit sharing and industrial representation by employees.

b. Housing Projects.—Because of the isolated location of many of its mines and furnaces, the Colorado Fuel and Iron Company entered upon housing projects for its employees. Hershey, Pa., known as "the chocolate town," contains commodious community buildings and attractive homes which the Hershey Company rents to its employees. Bourneville Village, another "chocolate town" is located a few miles from Birmingham, England; it consists largely of the homes of the workers in the neighboring factory of the Cadbury Brothers. The company rents these houses to its workers and helps them to become home owners by permitting them to buy houses on easy terms; it has provided a community park and numerous recreational facilities. Although early company

towns like that of Pullman were drab and ugly, recent ventures in both Europe and America testify by their architectural beauty and natural loveliness that such need not be the case. There is no dull uniformity in these later company houses.

During the First World War, the United States Government built a small village just outside Camden, N. J., for the housing of workers employed in the shipbuilding industries along the Delaware River. These homes were small but attractive. They showed what could be done by collective action. Model tenements have been constructed by many cities and then rented at low rates to workers. Probably the most expansive developments of this sort have been carried out in Vienna and in some Scandinavian cities. The recent depression and recovery periods stimulated in this country a similar movement toward the elimination of city slums and the construction of attractive, low-priced homes and apartments for workers of modest means. The Second World War revived the former problem of housing defense workers in governmental projects.

c. Recreational Schemes.—Employers have been as reluctant to inaugurate recreational programs for their employees as to enter upon housing projects. They have often preferred to subsidize these projects and to leave their operation to some outside organization. The industrial branch of the Young Men's Christian Association, for illustration, has cooperated very effectively with both men and management for the promotion of many welfare schemes. Witness the numerous branches of that and kindred organizations which have been established in great railroad and industrial centers.

In some cases, the management of the company itself has established clubhouses for its employees. These generally include reading rooms, lounging and smoking rooms, gymnasiums, and other facilities for exercise, reaction, and social intercourse. Athletic fields and indoor halls are maintained by some firms which have organized teams among their own employees. Baseball, basketball, and bowling contests are held among different firms and among different departments within a particular firm.

It is important that the management of these recreational activities of workers be administered by their own representatives. It is also desirable that there be some small contribution from all participants, in order that they may feel themselves a part of the plan and that any possible stigma of charity will be removed. It is also desirable that the recreational facilities be near to, but not inside, the factory.

d. Social Service.—Many large firms maintain social-service departments, while others subsidize existing social organizations in the interests of their own employees. The latter method is perhaps preferable to the

former, because it avoids a multiplication of existing social organizations and because it eliminates the criticism that the employer is prying into the private affairs of his employees. The workers themselves may organize permanent or temporary committees to visit the sick and to help restore other unfortunates to economic independence. Such a program may be subsidized and supervised by the personnel department. In special cases, a visiting nurse or a trained social worker is necessary for the alleviation of distress or for assistance to families in raising their standards of living by a better budgeting of their incomes. This social-service work should be correlated with a general health program.

e. Thrift Programs.—Other welfare projects seek the promotion of thrift. They include Christmas or vacation funds, opportunities to buy the stock of the company on favorable terms, and saving and loan associations for the purchase of homes. Profit sharing and employee ownership of stock will be treated in the following chapter.

Many companies have pension systems by which they reward the long and faithful services of their employees. Unfortunately, as was seen in Chap. XI, these private pensions are often inadequate in amount and coverage of workers; hence the necessity for social insurance of various types.

In the absence of such social insurance, or in addition to it, the welfare programs of many companies include the maintenance of disability funds for the care of the sick, injured, widowed, and orphaned members of their large industrial families. Such benefit plans give financial assistance in time of need, encourage thrift among the workers, develop a fraternal spirit among them, reduce labor turnover, and tend to induce loyalty to the company on the part of its employees.

f. Advantages and Disadvantages of Welfare Work.—Welfare programs should be developed gradually. They should be expanded only as rapidly as sentiment among the workers seems to warrant. As far as possible the employees themselves should manage, or participate in the management of, the detailed operation of these projects.

If wisely directed and democratically administered, welfare work should produce cooperation, rather than antagonism, on the part of employees toward their employers. Instead of creating resentment among the workers against management's intrusion into their methods of living and its interference with their leisure time, welfare work may be made to breed contentment and loyalty to the "corporation with a soul."

Organized labor, nevertheless, has not taken a very sympathetic attitude toward the welfare work of management. It has been stigmatized as "capitalistic feudalism" or as "benevolent despotism," which merely increases the dependence of employees on their employer. The workers sometimes resent attempts to influence the ways in which they

spend their leisure time. It is further charged that welfare work has often been given, not in addition to wages, but rather in lieu of wages, *i.e.*, as a substitute for higher compensation.

Organized labor has insisted that the workers be given a greater share in the product of their labor and that they be permitted to spend it as they please. It is felt that the paternalistic schemes of some employers reduce their workers from the high level of free men to that of "wards of capitalism." In the last place, it is contended that elaborate welfare schemes have sometimes been inaugurated, not for humanitarian reasons, but to advertise the products of employers and to build up the commercial asset of good will.

The advocates of welfare work point out in reply that the low planes of living of many families of workers are due not only to inadequate earnings, but also to the fact that their wages are not spent economically. Higher standards of living are conditioned not only by more efficient production, but also by more efficient consumption.

In the second place, welfare schemes can give to the workers the benefits of large-scale production and wholesale purchases. The company store or corporation home should be able to sell or rent the employee a better product for the same money. Only in rare cases is compulsion exercised on the worker to induce him to buy at the company store or to live in a company house. This is necessary only when the plant is located in some new section on the frontier of civilization. In most cases, the workers are free to choose for themselves.

6. Industrial Efficiency and Education of Workers.—Under the former handicraft system, apprentices learned their trades under the direct supervision and through the personal instruction of master workers. Thus the medieval guilds were educational, as well as economic, organizations. But the industrial revolution, involving the factory system and the substitution of power machinery for the skill of the craftsman, has entirely changed the character of industry. The modern demand for semi-skilled machine operators has been so great that there is now a relative dearth of skilled labor. Moreover, modern industry presents little opportunity for the adequate and general training of most workers.

The personnel programs of many large business organizations have sought to meet this need for industrial training by the development of apprenticeship schools and educational courses within the factory or mercantile establishment. The aim is not only to promote efficiency among the great mass of employees, but also to supply educational opportunities for exceptional individuals who desire to prepare themselves for advancement.

"Vestibule schools" are maintained by many corporations for the "apprenticeship" training of new workers in repetitive operations.

Instruction is given in the elements of important occupations and sometimes in elementary branches of general learning. Certain firms include safety first and hygiene in their educational programs. Most of them stress the special features of their products or the particular processes of their industry. The presence of a large number of immigrants in industry has led to the inclusion of Americanization programs and instruction in English, civics, and American ideals. In most industries and cities, however, the general phases of education are left to the public schools, especially evening schools and vocational schools.

In addition to training their wage earners, many concerns have found it desirable to provide courses for foremen and other minor executives. Their purpose is to provide instruction in plant organization and management, as well as to train for intelligent leadership in industry. Foremen have been termed "the first line of defense in industry"; they must be especially well prepared, not only for their supervisory work, but also for the promotion of better industrial relationships between men and management.

Summary.—Whereas industrial conflict is an active form of social unrest, labor turnover is a passive manifestation. Unemployment implies lack of work, but labor turnover means change of employment. Industry is characterized by excessive hiring and firing of workers, far beyond that necessary to achieve a certain desirable mobility of labor. Labor turnover reduces economic efficiency and increases waste in industry; it intensifies social instability and individual insecurity. Labor turnover can be reduced by scientific management, personnel administration, and vocational education.

Common methods of industrial remuneration are those of time wage and piecework. The latter method of wage payment is based on the amount of work done, and not on the length of time expended. Although the individual worker may favor piecework, because of the possibility of increasing earnings, organized labor has often opposed piecework, because it speeds up the worker and tends toward cutting wage rates.

Task wages and premium plans are modifications of these two basic methods of industrial remuneration. Task wages are negative in that they provide penalties for poor performance, whereas premium plans are positive in that they furnish rewards for good performance. The rise of scientific management has been accompanied by the development of various financial incentives, wage differentials, and bonus systems.

Scientific management attempts to apply the experimental method to production. It involves improved organization of industry and standardization of process. Early motion and time studies sought to discover the best way of doing a particular task and then to eliminate

former haphazard methods. Scientific management separates skilled from unskilled labor, routine from exceptional work, and managerial functions from those of repetitive performance.

Like the invention of machinery, scientific management offers the possibility of increased wages and elevated planes of living. But workers feel that they have not shared proportionately with management in the rewards of increased productivity. Again, they object to the impersonal character and driving effect of scientific management.

Personnel administration has supplemented the engineering efficiency of scientific management by stressing physiological, psychological, and sociological factors in industry. It has attempted job analyses for the better selection and placement of employees. It seeks to reduce friction between management and men by a more careful supervision of transfers, promotions, and dismissals. It aims to improve not only general working conditions within the plant, but also living conditions outside the plant. It supervises welfare projects and industrial education.

The economic ideal of increased industrial efficiency is being supplemented by the social ideal of improved human welfare. Programs of progressive employers now include various welfare projects for their employees, in addition to plant experiments in scientific management and personnel administration. Welfare work constitutes an extension of the functions of management beyond the walls of the factory. It includes all those services which an employer performs for his employees over and above the payment of wages. Welfare work embraces housing projects, recreational programs, social service, and thrift schemes for workers. Although it has many desirable features, welfare work has been stigmatized by organized labor as "capitalistic feudalism."

Questions for Discussion

1. *a.* What is labor turnover?
   b. How is it expressed?
2. *a.* Outline the chief forms of labor turnover.
   b. Briefly explain the nature of each.
3. *a.* Why is labor turnover serious?
   b. How can it be reduced?
4. *a.* Outline fundamental concepts of scientific management.
   b. Explain each briefly.
5. *a.* On what general grounds has organized labor attacked scientific management?
   b. Evaluate each of these criticisms.
6. *a.* Distinguish between piecework and time wages. Illustrate each.
   b. Differentiate task wages from premium plans. Illustrate each.
7. *a.* Outline the chief functions and proper activities of personnel administration.
   b. Show how it supplements scientific management.
8. *a.* What do you understand by welfare work?
   b. Illustrate and evaluate various types.

9. What are the chief criticisms of welfare work by organized labor? Which are valid and which invalid? Why?

Topics for Investigation

1. Pioneer work of Taylor in scientific management.
2. Recent modifications of earlier scientific management.
3. Scientific management and organized labor.
4. Structure and functions of the personnel department of some industrial plant or business organization with which you are familiar or in which you are interested.
5. Vocational education outside industry.
6. Education of the workers within industry.
7. Welfare projects of an industry in your own community.
8. Financial incentives in industry.

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CHAPTER XIX

EMPLOYEE REPRESENTATION AND PROFIT SHARING

INDUSTRIAL DEMOCRACY AND INDUSTRIAL AUTOCRACY

1. Concept of Democracy.—The much-used and often-abused term "democracy" is capable of many interpretations. For present purposes it will be understood to mean participation in control by the many, rather than autocratic control by the few.

Democracy is an ideal and a relative term. It is a progressive concept, like standard of living, for the ideal advances as society progresses toward it. The democratic ideal is now expanding from political to industrial relationships.

2. Political and Industrial Democracy.—The worker as a citizen enjoys the right to suffrage, although the political machine sometimes distorts this theoretical and idealistic democracy into virtual dictatorship or actual corruption. But the citizen as a worker generally has had no such right to participate in the formation of the policy of the industry in which he has labored. Very often he has been a mere soldier in the ranks, whose duty it was to obey rather than to suggest.

Just as political absolutism has given way to political democracy, so industrial absolutism is now apparently on the wane. Divine right of kingship belongs in the shadowy past of remote history, in which the absolute monarch, King Louis XIV, was able to say, "I am the state." It is a far cry also to a generation ago in America, when an officer of a New York street-railway company refused arbitration with his employees on the grounds that they were his servants, whose duty it was to do his will or to leave his service.

The absence of political democracy means that autocracy must be overthrown by revolution instead of by election and by bullets instead of by ballots. The absence of industrial democracy results in economic unrest, which is expressed in strikes and other forms of industrial warfare instead of peaceful negotiation.

The success of democracy is conditioned by the education of a people. Accustomed to autocracy, the German people merely replaced a hereditary emperor by an elected dictator. "Benevolent despots" in industry have been submerged by the rising tide of democracy. The new deal of the copartnership of labor and capital has arisen above the waves of industrial disorder. Its preservation and success, however, are likewise

conditioned by the spread of public education among the masses and by the development of intelligent leadership in industry. Otherwise captains of industry may similarly be replaced by equally autocratic labor bosses.

3. Industrial Representation. *a. Nature and Types.*—Industrial representation is participation by workers in the control of their working conditions. It is representative government in industry. This new economic ideal is reflected in such organizations as shop committees, works councils, and industrial congresses. It is represented also by collective negotiation through trade unions or industrial unions. The one is apt to be dominated by the employer and to succumb to benevolent despotism or industrial absolutism through attractive programs of welfare work. The other may be dominated by labor barons and degenerate into industrial anarchism or the industrial feudalism of rival bosses and predatory gangs. In either case the existence or success of industrial democracy is menaced.

Industrial representation may be achieved either cooperatively with organized labor or independently of organized labor. Trade agreements are made for many occupations in the joint conferences of employers and trade unions. On the other hand, industrial representation has been achieved within company unions which embraced only the employees of individual firms. Industrial representation by and through trade unions has been common in Europe and Australasia, but employee representation by and through company unions was popular in the United States before the passage of the National Labor Relations Act.

b. Aims.—The primary purpose of industrial representation is the reduction of dissatisfaction and unrest through closer and better relationships between labor and capital. Its aim is not merely the elimination of strikes and other industrial conflicts, but also the promotion of better mutual understanding. Works councils and industrial parliaments serve as peaceful mills for the rubbing away of friction points between employers and employees, lest they burst into the flames of open conflict or smolder in secret discontent. Organizations for industrial representation serve also as agencies of education in the problems and points of view of opposing sides in our present industrial alignment. Better mutual understandings, in turn, promote industrial good will and greater efficiency in production. Although sometimes prompted by practical and even selfish motives, industrial representation is essentially an expression of the new democratic ideal of copartnership in industry.

4. Industrial Representation in Europe. *a. Germany.*—Although industrial representation is a fairly new movement, its antecedents are remote. Such a plan was presented by the Industrial Commission of the German Constitutional Assembly, held at Frankfurt in 1849, during the

flood tide of democracy which swept Central Europe during the middle of the past century. This proposal of industrial representation, which apparently had been dead and buried for three-quarters of a century, came to life again in plans of industrial representation revived temporarily by the ill-fated German Republic, which existed from the end of the First World War to the rise of Nazism under Hitler.

b. Great Britain.—In the opening decades of the twentieth century, particularly during the First World War, great progress in industrial representation was made in the United Kingdom. The British Labour Party was especially interested and active therein. Although the radical socialist ideal of industrial representation was that of the workers only, the practical compromise was the organization of industrial councils composed of both employers and employees.

The British Reconstruction Committee Subcommission on Relations between Employers and Employees, generally referred to as the Whitley Committee, made in 1917 its famous report, which contained an elaborate scheme of industrial representation. It sought to attack in this fashion an important cause of industrial unrest and to continue the economic cooperation of labor and capital which the war had engendered. Broader dissemination of the control of industry seemed as fundamental as a wider participation in the profits of industry.

The Whitley Committee, therefore, recommended not only works councils, but also district, and even national, joint industrial councils, wherever they were possible. Great flexibility of organization was desired because of the different character of various industries. The Industrial Councils Division of the British Ministry of Labour was created for the purpose of assisting in the formation of these industrial councils. Unlike President Wilson's Second Industrial Conference, which was greatly influenced by the Whitley report, practical applications of this scheme have been made in Great Britain.

5. Employee Representation in the United States.—Industrial representation existed in the United States, but not on the same scale as in Great Britain, Germany, and some other European countries, in which the movement is older. Industrial representation in America has been confined chiefly to the works councils of individual firms or the collective negotiation of particular unions. It has not yet developed into national, or even district, parliaments of industry, except for the joint conferences of certain highly unionized occupations.

Moreover, industrial representation in this country has expressed itself in two very different and hostile forms, *viz.*, trade unionism and company unionism. Employee representation within the United States has developed apart from the organized labor movement, rather than in conjunction with it. The impetus toward employee representation,

i.e., company unionism, has come neither from the government nor from labor, but from management.

Employee representation developed on this side of the Atlantic from what was regarded as the dubious experiments of a relatively few liberal employers. It later established itself as a means of adjusting grievances between men and management. Still later, employers found it to be a means of promoting efficiency and a method of providing for the general welfare of their employees. Finally, employee representation or company unionism was found by management to be a preferable form of industrial representation to that of trade unionism or industrial unionism. Consequently, company unions under employer guidance or supervision were fostered as a substitute for or a preventive of independent unions. This was especially true after the legalization of collective bargaining in the National Industrial Recovery Act of 1933 and before the passage in 1935 of the National Labor Relations Act imposing restrictions on company unions.

6. Company Unions and Independent Unions.—Works councils express industrial representation through the business organization, rather than by craft or industry. They represent the workers as employees of particular plants through company unions. The walking delegate or business agent is not an employee and, hence, is ineligible for representation in works councils.

Such a definition of works councils as employee representation through company unions is a narrow but accurate description of the situation in the United States. In Great Britain and other countries, however, works councils have been frequently organized in conjunction with the existing machinery of trade unionism. In the United States they developed apart from and still remain apart from organized labor.

The extension of works councils into broader industrial parliaments necessitates national, stable, and responsible unionism. Such is the situation in Great Britain and numerous other countries in which organized labor was stronger than in the United States. The failure of industrial representation in the United States to develop beyond works councils into district and national industrial councils was due to the great gap between company unionism and trade unionism. Management favored the former but feared the latter. Hence the employer's reluctance for and resistance to expansion beyond the employees of a single plant or corporation.

It must be repeated that trade unions and industrial unions are forms of industrial representation but not of employee representation. Collective negotiation for trade agreements between organized labor and associations of employers is between organizations whose bargaining power is relatively strong and nearly equal. Hence this form of labor

representation is perhaps fairer than that of company unions, in which the employees have little bargaining power. These great industrial parliaments which formulate trade agreements are more typical of democracy—at its best and at its worst—than are company unions, which typify industrial paternalism or benevolent despotism. Works councils represent industrial government of employees, often for employees, but rarely by employees.

7. Definitions of Works Council and Employee Representation.—That form of industrial representation known as "works councils" or "employee representation" has been defined as follows:

> The Works Council may be described as a form of industrial organization under which the employees of an individual establishment, through representatives by and from among themselves, share collectively in the adjustment of employment conditions in that establishment.[1]
>
> Employee representation may be defined as a mechanism to permit employees of an organization, through duly elected representatives from among their number, to confer with management representatives concerning matters affecting working conditions, with a view to arriving at a mutually satisfactory agreement, and, in general, promoting harmonious relations and an understanding on the part of each group of the viewpoint and problems of the other. Various designations have been given to plans of this general character, the most common, in addition to employee representation, being works council, shop committee, industrial democracy and company union. Industrial democracy, however, is a special form of employee representation patterned after the federal government. The term "company union" should properly be restricted to those plans, found mostly on railroads, which are similar in organization and operation to organized labor unions, except that membership in them is confined to employees of the particular company.[2]

8. Classification. *a. Scope.*—Industrial representation can be classified by extent and by type. A shop committee is confined to one department of a plant, but a works council attempts to represent all the employees of a factory. It would seem, however, that this early distinction between shop committees and works councils is breaking down. At present, the two expressions are used interchangeably.

In addition to local organizations of the employees of a single business concern, there may be larger industrial councils which include representatives of an entire industry or of a whole geographical region. Thus there may be district industrial councils and Federal industrial councils. All these industrial organizations are similar in that they include repre-

[1] "Employee Representation or Works Council," published by the Department of Manufacture, Chamber of Commerce of the United States, E. W. McCullough, manager, p. 4.

[2] National Industrial Conference Board, "Collective Bargaining through Employee Representation," p. 2.

sentatives of the employees and of the employers, of labor as well as management.

b. Types.—There are two general types of employee representation, which will be treated later in more detail. The earlier and more elaborate form of organization was modeled on the Government of the United States. Hence the term "industrial democracy" has been used to refer to this particular type of employee representation, as well as to the entire movement. The other plan of organization, known as the "committee type," calls for direct and joint representation by employer and employees.

9. Essentials of Works Councils.—It goes without saying that the occasional meeting of an improvised committee or delegation of workers with management for the consideration of certain special, temporary, or emergency problems does not constitute employee representation. In order to be regarded as a works council, the arrangement must be on an organized basis and of a continuous nature.

There must also be a definite procedure and an equally definite method of representation agreed on in advance by both employer and employees. There need be no written instrument of government, however, nor a rigid definition of relative powers and functions. Too great a rigidity of structure renders difficult the modification of its organization under the stress of circumstances. In a crisis, the whole scheme may be broken to pieces rather than be modified in part.

Some of the complex and artificial programs of employee representation established in this country during the First World War were ephemeral. On the other hand, the institutionalized practices of certain firms, the product of evolution, change, and experience, survived. They contributed more to employee representation than many lengthy constitutions expressing high purposes and embodying administration details.

Even more important than the plan of organization followed by a plant or company is the relationship of the company union to the organized labor movement. Thus employee representation was provided by many companies in lieu of trade unionism. Many firms which maintained works councils, as well as profit-sharing, stock-ownership, and welfare schemes for their employees were frankly or secretly open-shop or even antiunion in their attitude.

10. Rise and Fall of Company Unionism. *a. Before and during the First World War.*—The earliest recorded works council in the United States was that introduced by the Nerst Lamp Company in Pittsburgh in 1904. The Nelson Valve Company of Philadelphia established a works council of a different type in 1907. Both these companies changed management, and both works councils disappeared.

In 1911, a plan of employee representation was introduced by Hart Schaffner and Marx Company of Chicago which, with modifications, is still in operation. This is the oldest of such schemes now in existence in the United States. One of the earliest, most permanent, and most widely known plans of employee representations is that of the Colorado Fuel and Iron Company, established in 1915 after the long and bloody strikes of 1913 and 1914.

Works councils developed slowly in this country in the first decade and a half of their existence. In the year 1917, there were only about eight new installations of works councils in the United States. Indeed, so few were the American experiments in employee representation, and so little publicity had been given to the few works councils then in existence, that the program as outlined in the Whitley report was widely heralded as an English innovation, unknown in the United States. Because of the emergency demands for increased production and improved industrial relations caused by our entrance in the First World War, several Federal agencies actively promoted employee representation on a national scale and after the English model. In the years following the signing of the armistice, however, most of these industrial councils, established under wartime pressure, went out of existence. On the other hand, local and voluntary works councils increased.

b. After the First World War.—Following the First World War, company unionism grew rapidly in the United States. According to a survey by the National Industrial Conference Board, the number of companies with employee-representation plans in operation more than doubled from 1919 to 1922 and just about tripled from 1919 to 1926. But from 1926 to 1928, years of economic prosperity, a decline took place in the number of companies with employee-representation plans in effect. The number of workers covered by employee representation, however, increased rapidly and steadily, rising from about 400,000 in 1919 to 1,241,000 in 1924, and to 1,548,000 in 1928. This decline in number of companies, accompanied by an increase in number of workers covered, between 1926 and 1928, is accounted for by the fact that, although many small companies abandoned employee representation between these years, their places were taken by a smaller number of large companies, which employed more workers under employee-representation plans than had been previously so employed by a larger number of small companies.[1]

The depression years saw a reduction both in the number of companies having plans of employee representation and in the number of workers covered. Nevertheless, the decline in membership in company

[1] National Industrial Conference Board, "Collective Bargaining through Employee Representation," 1933.

unions was probably no greater than, if as great as, the decline in trade-union membership. Again, the improved status and increased importance of collective bargaining under the National Industrial Recovery Act of 1933 stimulated a renewed interest and growth in company unionism in spite of the prohibition of coercion and the elimination of yellow-dog contracts. There was a similar revival of trade unionism and a subsequent development of industrial unionism.

c. Company Unionism under the New Deal.—Immediately following enactment of the National Industrial Recovery Act in June, 1933, the number of company unions and the membership therein increased rapidly. Another study[1] by the National Industrial Conference Board of some 650 companies having employee-representation plans involving about a million workers revealed in November, 1933, that over three-fifths of these plans had been established within the few months following the passage of the National Industrial Recovery Act. The number of employee-representation plans and membership therein continued to grow rapidly. In April, 1935, membership in company unions was estimated[2] at 2,500,000 workers, a figure rivaling membership in trade unions.

The National Labor Relations Act of 1935 reaffirmed the right of workers to bargain collectively through representatives of their own choosing. It set up administration machinery to hold secret elections among the workers to determine the desired agency to represent them and to hear complaints by the workers of infringement by employers of their right to bargain collectively. Finally, severe penalties were imposed on employers who intimidated employees from joining independent unions or who enticed employees into joining company unions. Employee representation through works councils was not outlawed, but employers were forbidden to subsidize company unions or to influence their policies. Members of company unions were not to be given special favors, and members of independent unions were not to labor under discrimination. The result of this legislation was a decrease in the number, the membership, and the power of company unions.

11. Types of Works Councils.—Plans for industrial representation vary greatly because of the divergent size and character of different industrial establishments. There are two general types, however, which may be termed the "governmental" plan and the "committee" plan. There are, of course, numerous modifications and intermediate plans of these two general types of works councils.

[1] The National Industrial Conference Board, "Individual and Collective Bargaining under the N. I. R. A.," 1933.

[2] BERNHEIM, A. L., and others, "Labor and Government," Twentieth Century Foundation, 1935.

The *governmental type of employee representation* is modeled on our political institutions, particularly on the National Government of the United States. Hence the term "industrial democracy" is sometimes used to refer to this particular type of employee representation, rather than to the entire movement.

The governmental, or industrial-democracy, type of employee representation provides for a cabinet of executives of the plant, a senate of foremen, and a house of representatives of workers. The secret ballot is generally used, and the qualifications of electors are carefully specified. The legislative procedure follows that of the National Government with such modifications as are dictated by individual expediency. Although many of the older plans of employee representation were of this sort, the industrial-democracy plan of employee representation is now decidedly in the minority as compared with the committee type. Moreover, its importance seems to be decreasing rather than increasing. Hence it may be said that the industrial-democracy plan of employee representation is now chiefly of historical interest.

The *committee type of employee representation* provides for a joint committee of employers and employees, in which representatives of the workers confer directly with management about the various problems which arise within the plant.

The committee type of employee-representation plan, in turn, is divisible in two subgroups, one of which provides for joint committees of men and management, and the other of which provides for separate representation of men and management in the lower committees. The latter plan, which may be regarded as a survival of the older industrial-democracy plan, rests on the assumption that a fuller and freer discussion will be indulged in by the workers if representatives of management are not present at the preliminary stages.

12. Typical Plans and Activities.—The "Colorado plan" of the Colorado Fuel and Iron Company was a rather elaborate adaptation of the committee type of employee representation. It was created after considerable study and finally put into effect in 1915. The Rockefeller management regarded this plan of employee representation as sufficiently successful to warrant its subsequent application to the Standard Oil Company of New Jersey. Joint conferences of representatives of both employees and employers were to determine policies; specific problems came before joint committees on industrial cooperation and conciliation, on safety and accidents, on sanitation, health, and housing, and on recreation and education. Provision was made also for arbitration, if the joint committee on industrial cooperation and conciliation could not settle a dispute of its own accord.

The International Harvester Company instituted works councils in 1919 in nearly all its plants, for the joint determination of some policies regarding wages, hours, working conditions, health, safety, education, and recreation. Provision was also made for a board of arbitration to settle controversial points.

Some committee plans of industrial representation provided also for the regular and permanent representation of employees on the board of directors of the company. Such was the plan operated by the Procter and Gamble Company, manufacturers of soap in Cincinnati, and by William Filene Sons' Company, a large department store in Boston.

Although most works councils in this country were products of company unions from which trade-union delegates were excluded, such was not always the case. Some companies having works councils have had agreements with their respective unions, as well as with their employees. Plans which combined union recognition with the shop-committee features were worked out by the Baltimore and Ohio Railroad and by the Hart Schaffner and Marx Company.

A disastrous streetcar strike in Philadelphia in 1910 led to a complete reorganization of the management of the Philadelphia Rapid Transit Company. A Cooperative Welfare Association for the workers was created, and finally, in 1918, a scheme of employee representation, accompanied by profit sharing and employee ownership of stock, was adopted. Men and management were to settle their difficulties through branch committees, department committees, a general committee, and a board of arbitration. Moreover, when and if the overwhelming majority of the employees should desire affiliation with the carmen's union, that alternative was left open. Hence this program of employee representation, introduced by the Mitten Management for the carmen of Philadelphia, has been said to be democratic. Its practical success has been demonstrated by almost two decades of freedom from strikes and by the failure to date of the carmen to demand union affiliation.

Numerous other illustrations of employee-representation plans might be given, but these will be sufficient to exemplify the general types. Administrative detail is far less important to the general student than are the underlying principles and broad functions of works councils.

13. Objectives of Employee Representation.—The chief objective of employee representation is the promotion of industrial good will through the better understanding of men by management and of management by men. It facilitates personal contact, where the firm is engaged in programs of health and safety or in comprehensive welfare projects.

From the point of view of the workers, employee representation gives them an opportunity to present their grievances to the management in a direct fashion. Again, works councils are fairly effective devices

for enforcing decisions of boards of adjustment or arbitration. In these ways working conditions may be improved or prevented from retrograding.

The chief objective of management in furthering employee representation is to promote industrial efficiency and economy of production. Again, it tends to minimize the likelihood of strikes, sabotage, and other forms of industrial conflict or retaliation. In brief, management has come to feel that a contented employee, as well as a healthy one, is more efficient and productive than a discontented or unhealthy worker.

The following objectives of employee representation have been stated from the point of view of management:

1. To promote justice in relationships between working men and management.
2. To insure equitable consideration of grievances and complaints of employees.
3. To furnish worker a means of exercising an appropriate measure of control over his own conditions.
4. To provide means of collective dealing between employer and employee.
5. To facilitate exchange of information and understanding between management and working force.
6. To increase efficiency and loyalty of labor.[1]

14. Results of Employee Representation.—The results of employee representation are difficult to determine, for the movement has been recent, brief, and controversial. Most statements of its results are at variance, as recounted by management and by organized labor. Again, the success of employee representation has varied from time to time, from place to place, from industry to industry, and from employer to employer. In general, these expressions of results are modified statements of the objectives of the program, as stated in the last section.

Attempts have been made to secure periodic reports of the success of the various plans in operation. The Committee on Labor Relations of the Cleveland Chamber of Commerce in 1923 evaluated sixteen plans then in operation in that city. This report is significant as an able expression of the hopeful enthusiasm of an earlier period. The findings were rather impressive, for in nearly every case both executives and workers stated that employee representation had succeeded in creating industrial leadership and promoting economic education among workers. Some employers recorded the development of a more intelligent and sympathetic understanding of their mutual industrial problems. In most cases, it was felt that such schemes had improved the morale and cooperation of the workers and, in the majority of cases, that they had decreased the rate of labor turnover. In some cases, it was felt that the

[1] COWDRICK, E. S., "Management's Handbook."

plans had stimulated production through increased efficiency and even by the adoption of some valuable suggestions of employees. On the other hand, several employers stated frankly and tersely that they did not see that the introduction of plans of employee representation had been directly productive of profit.

A study of employee representation by the National Industrial Conference Board[1] reported in 1933 that the early hopes that employee representation might function as a means of adjusting grievances between men and management had met with only modest success. Accordingly, its functions had changed toward the promotion of increased industrial efficiency and toward the administration of comprehensive programs of welfare work, in both of which respects it had been very successful. Finally, the aim and result of employee representation changed gradually from the settlement of industrial disputes through arbitration to the prevention of industrial disputes by improved and more conciliatory management.

15. Limitations of Employee Representation.—Employee representation is not a panacea for all industrial ills. Indeed, it is more of a preventive than a cure for labor disturbances. Although it may tend to reduce industrial conflicts, employee representation will not inevitably prevent strikes. It cannot be expected to produce immediate and lasting results, for it takes time and study to develop skill and competence on the part of management and loyalty and confidence on the part of the workers.

The success of industrial representation is dependent on intelligent labor leadership as well as on the sympathy and vision of employers. Great precautions should be taken in the introduction of any such schemes. Many have failed because they were applied without previous attempt to create a sentiment in favor of them among the workers. Sudden liberty may spell license to the irresponsible laborer.

Employee representation offers no royal road to industrial grace. No employer should suppose that merely by installing some system of shop representation he can be assured, without continued effort, of harmony and increased production. Doubtless there will be failures where the plan is adopted as a fad or a panacea. It is only a means whereby sincerity of purpose, frank dealing and the establishment of common interests may bring mutual advantages.[2]

16. Criticisms of Employee Representation.—Justly or unjustly, organized labor has looked askance at company unions; it has insisted

[1] National Industrial Conference Board, "Collective Bargaining through Employee Representation," 1933, chap. 4, conclusion.

[2] President Woodrow Wilson before the Second Industrial Conference as quoted in "Collective Bargaining through Employee Representation," p. 43.

that labor must work out its own salvation through its own organization and by its own weapons of collective bargaining, such as the strike and the boycott. Industrial conflict is sometimes the necessary price of victory; industrial harmony is often the easy road to loss of power by unions and loss of privilege by workers.

The American Federation of Labor has formulated its objections to company unions or plant systems of collective bargaining. The charges of unfair elections and of intimidation of representatives have been made. It has been contended that company representatives have attempted to divert attention of workers from the real objects of collective bargaining into such items as safety-first movements and educational programs for increased efficiency and greater production. Again, company unions were regarded as lacking in power and in danger of becoming subservient implements of employers' associations. Behind these arguments lurked the great fear that the whole organized labor movement would be weakened. Many of these arguments were revived and some of them were redressed to support inclusion of anti-company-union features in the National Labor Relations Act, which strengthened industrial representation through independent unions and which weakened employee representation through company unions.

On the other hand, many employers have opposed industrial representation, and even employee representation, but for different reasons. They have insisted on their individual right to run their own businesses in their own way. Consequently, they have resented attempts of their employees to dictate or to pry into what they considered their own affairs. Other employers have been sympathetic toward participation by workers in the control of industry but skeptical of labor's ability to do this in an intelligent fashion.

The legalization of collective bargaining by the National Industrial Recovery Act of 1933 intensified the struggle between independent unions and company unions; it embittered the subsequent struggle between trade unions and industrial unions. Leaders of organized labor renewed their criticisms of works councils, formulated shortly after the First World War. On the other hand, spokesmen for employers' associations were less severe in their criticisms of employee representation because they regarded it as preferable to either of the two other forms of industrial representation. After the legality of collective bargaining had been assured, company unions were viewed as a lesser evil than the old danger of trade unions and the new menace of industrial unions.

17. Relationship of Profit Sharing.—Greater participation in the product, as well as in the control, of industry is an aim of the labor movement. Hence wider distribution of profits, as well as greater democracy of management, has been sought by many employees and

provided by some employers. Profit-sharing schemes have supplemented plans of employee representation and programs of welfare work.

Although labor has attempted through collective bargaining to increase the share of national income going to wages, it has been unable or unwilling to participate in the financial risks of industry. Although demands for increased wages have emanated from the workers, schemes of profit sharing have generally come from employers.

18. Nature and Objectives of Profit Sharing.—Profit sharing may be defined as a method of industrial remuneration by which the employee receives in addition to his regular wage a definite share, fixed in advance, of the profits of the business. Thus profit sharing does not eliminate the wage system, but exists with it as an extra financial inducement to increased production or to decreased waste.

In addition to this objective of increased efficiency, profit sharing has been regarded as a means of reducing labor turnover. It has been introduced by certain socially minded employers for the reduction of industrial unrest. On the other hand, profit sharing, like employee representation, welfare work, and pension plans, has been introduced also for advertising purposes. Finally, it has been favored by management as a method of strengthening company unionism at the expense of trade unionism.

19. Types of Profit Sharing.—Profit sharing takes many different forms, but they fall into three general groups. In the first place, profit sharing may be done through a cash distribution of profits. At the expiration of a definite period of time, profits are computed in a manner formerly decided on and then distributed to the workers as cash bonuses. In the second place, profit sharing may take the form of a distribution of shares of stock in the company. In the third place, profit sharing may take the form of pensions, annuities, or other types of deferred savings.

Profit-sharing schemes may be classified also according to the degree to which they approximate true profit sharing. Many so-called "profit-sharing" schemes represent merely the payment of a bonus in times of prosperity without a precise effort to make it conform to net profits and without a promise of repetition under similar circumstances. The sliding scale is not an accurate method of profit sharing, even though it is definite and repetitive; the profits shared with the workers vary with the price of the product, not with the net profits of the business organization.

20. Contrast between Profit Sharing and Gain Sharing.—Profit sharing treats the workers as a group or as a number of groups. The total profit is divided among the total number of workers according to some accurate or rough measure. It makes no effort to determine what contribution to profits has been made by the individual worker and

to reward him accordingly. Gain sharing, however, has this very objective. As under piecework, the individual worker is rewarded according to his individual productivity. Although the worker is paid by his time, rather than at a piece rate, his individual productivity is measured. Any excess beyond a previously determined fair rate is correspondingly rewarded out of the profits of the firm. Gain sharing is associated with scientific management; profit sharing is related to the cooperative movement.

21. Development of Profit Sharing. *a. France.*—Just as works councils had their inception in Germany and England, so profit sharing had its beginnings in France. The first experiment was conducted as far back as 1842 by the house painter and decorator Le Claire. In 1844, the Paris and Orleans Railroad adopted a profit-sharing scheme. One of the most successful profit-sharing schemes of all Europe was established by André Godin at Guise.

b. Great Britain.—Profit sharing was introduced here in 1865 by H. Briggs and Company in the Whitwood coal mines of Yorkshire. The failure of this plan ten years later checked the development of profit sharing. In the closing decade of the nineteenth century, however, the South Metropolitan Gas Company revived this device by providing that each workman was to receive 1 per cent bonus on his year's wages for every penny reduction achieved in the cost of gas per thousand cubic feet. Workers were encouraged to leave their profits in the business in exchange for stock certificates; employee representation was provided.

Another copartnership scheme was introduced in the soap manufacturing plants of the Lever Brothers Company, when it issued partnership certificates to all desirable and mature employees who had been with the company for several years. Profit sharing was thus provided by participation in the regular dividends of the company. Although employees as such were not represented in the management of the industry, nearly all the directors were former employees of the company. An elaborate welfare program also has been carried on by this firm for its employees.

c. United States.—One of the most successful profit-sharing plans in this country was inaugurated in 1886 by the N. O. Nelson Company of St. Louis. The original scheme provided that 6 per cent interest should be paid on the capital investment and that profits in excess of that amount should be divided proportionately between the capital and the total wages funds for any year. Later changes were the creation of a reserve fund out of a 10 per cent allowance each year and the provision that profits were to remain with the company until they were large enough to be distributed in the form of stock certificates to employees.

The American soap-manufacturing firm of Procter and Gamble of Cincinnati instituted in 1887 a profit-sharing plan, which, as we have seen, was later supplemented by employee representation. The scheme originally provided for cash payments of profits to employees in the same ratio that wages bore to the total expenses of production. Stock dividends were later substituted.

d. Retrospect.—It is apparent that profit sharing is an old and ubiquitous device. With a century of history behind it, the progress of the movement has been slow, spasmodic, and sporadic. Many of the experiments were failures and most of them were short-lived. Let us now examine special types and more recent developments of profit sharing.

22. Sliding Scale.—The simplest form of profit sharing is what is known as the "sliding scale." The assumption is that profits tend to vary directly with the price of the product.

There is generally a minimum below which wages cannot fall, no matter how precipitously prices may drop. In other words, the employer must always offer at least a living wage. It should be remembered, however, that the enterpriser will close his plant rather than operate under prohibitive costs of production. In other words, this guaranty of a minimum wage merely means that the worker accepts the alternative of unemployment as preferable to that of a wage lower than the prescribed minimum.

The sliding scale has been used with some success in the metal and mining industries, where frequent price changes necessitate corresponding wage changes. Under this system of sharing profits, wages tend to rise automatically in periods of high prices. The price barometer of prosperity can be read by all workers.

The simplicity of this scheme gives it administrative ease. Price changes, however, are not accurate indicators of profits. Thus the anthracite mine owners, protesting against the award of the Strike Commission in 1902, contended that the price of coal would continue to rise as it became increasingly necessary to sink deeper shafts and to mine less accessible anthracite; they claimed the price of coal represented increasing expenses of production rather than increasing net profits.

23. Direct Profit Sharing.—The deficiencies of the sliding scale have stimulated attempts at a more meticulous computation and a more equitable division of profits. In order to determine net profits, it is necessary for the enterpriser to fix in advance the value of his services to the business and to pay himself a stipulated salary in addition to a fixed rate of return on the capital he has invested or borrowed. After all expenses of production have been deducted, net profits are divided among enterpriser and workers according to some definite ratio previously agreed on.

Although this scheme of profit sharing is more accurate than the sliding scale, it has more administrative difficulties. It is not easy for some workers to understand why the enterpriser estimates his own services at so high a figure. Again, the necessary publicity as to expenses and profits may be detrimental to the business. On the other hand, if a policy of secrecy is maintained, there may be suspicion on the part of employees that the books have been unfairly kept.

This direct type of profit sharing has been successfully utilized chiefly by small firms, where the workers know the enterpriser intimately and trust him implicitly. Again, it seems to require intelligent workers as well as honest and able enterprisers.

There are some large firms, however, which have successfully applied this form of profit sharing. The manager is generally an officer of the company whose salary is as definitely fixed as the wages of the workers. It is a fairly easy task to total the wage bill, the salary bill, the interest on the capital investment, and other costs of production. Net profits are then divided between men and management according to some previously agreed-on plan.

Experience has shown that profit sharing has succeeded in times of prosperity, but that it has often gone down on the financial rocks of depression. Workers are willing to share profits, but they are unwilling or unable to share losses. Consequently it has been found advisable to set aside each year a certain percentage of the net profits as a reserve fund for periods of depression. Although this principle of reserves curtails bonuses during years of prosperity, it permits living wages or dismissal wages in years of depression or periods of unemployment.

24. Deferred Profit Sharing.—Another type of profit sharing is that of deferred savings and insurance. Instead of a cash bonus, an equivalent sum is placed to the employee's credit. Sometimes these accounts may be drawn against, but often they are regarded as inviolable until the employee has reached a certain age or has served a stipulated number of years with the firm. Accumulated profits of the employee constitute deposits in bank or shares of stock in the company, which pay interest or dividends respectively and regularly. Shares of profits may be applied as premiums for the purchase of life insurance.

Workers have objected to such deferred profit sharing on the ground that participation in a strike or a dishonorable discharge may result in the forfeiture of at least a part of the accumulated profits or anticipated benefits. Hence such deferred schemes of profit sharing, like pension systems, can be used as effective weapons by employers in an industrial crisis. In order to reduce labor turnover, it is sometimes provided that the withdrawal of an employee from his occupation may result in the forfeiture of at least a portion of his accumulated profits. Although a cash bonus is generally more popular with employees than a deferred-

savings plan, employers are inclined to favor the latter method of profit sharing, for it increases the hold of management on the workers.

Plans of deferred profit sharing have been fairly common among the thrifty French workers, but they have been relatively rare in Anglo-Saxon countries, unless employee ownership of stock, which is somewhat similar, is so classified.

25. Issuance of Stock as a Means of Profit Sharing.—The giving to employees of shares of stock, instead of cash bonuses, is another form of deferred profit sharing. This participation in the profits of an industry is regarded by some employers as an effective means of encouraging thrift and stimulating workers' interest in the business. Moreover, it does not necessitate taking funds out of working capital, for the profits of the worker remain invested.

Profit sharing through issuance of employees' stock may lead to stock watering. The process is so easy that it is difficult to prevent overcapitalization of the good will of employees before it is actually created or in excess of the business value which it represents. Monopoly profits were similarly capitalized through stock dividends, and the total par value of the securities of the consolidated or merged concern were frequently far greater than the true value of its combined physical assets.

In some cases, shares of stock have been given to employees, not because of the existence of any previously agreed-on scheme of profit sharing, but as a voluntary and gratuitous recognition by the employer of many years of faithful service.

26. Purchase of Stock by Employees.—Before the stock-market crash in 1929, a popular practice was to permit employees to buy shares of stock in their company at prices somewhat lower than those in the open market. In some cases, such stock might be paid for on the installment plan out of future wages.

On all sides the hope was expressed that participation by employees in the profits, as well as in the control, of industry would reduce industrial unrest and promote greater harmony between labor and capital. Indeed, the increase in stock ownership by employees before 1929 seemed so significant that Professor Carver referred to the movement as another industrial revolution.[1]

An analysis of employee ownership of stock was published in 1928 by the National Industrial Conference Board.[2] It found 315 companies which were either selling or had previously sold stock to all or to selected employees. These companies had a total of 2,736,448 employees, of

[1] CARVER, T. N., "Present Economic Revolution in the United States."

[2] National Industrial Conference Board, "Employee Stock Purchase Plans in the United States."

whom there were 806,068 employee stockholders and subscribers, or less than 30 per cent of the total number of employees. Moreover, this relatively small number of "wage-earning" stockholders was inflated by the inclusion of better paid employees, such as executives and technical experts. In twenty of the largest corporations, in which employee stock ownership had been relatively widespread, the ratio of all employee holdings to the total market value of the outstanding stock was only 4.26 per cent. After allowing for duplication, the National Industrial Conference Board estimated, just before the crisis of 1929, that about 1 million employees in the United States owned or had subscribed to about $1 billion worth of stock.

27. Postdepression Criticisms of Employee Ownership of Stock.—Employee ownership of stock, which had been lavishly praised in the decade of rising security prices before 1929, came in for equally widespread criticism during the deflationary years that followed. A survey issued in 1933 declared that both men and management have lost more from the employee stock-ownership movement, as a whole, than they have gained "in improved morale and dollars saved." This verdict was based on a study of fifty plans which were selected as being "as representative as possible of the movement as a whole." Of the stock sold to employees, the median quotation of eighteen preferred and seventeen common issues fell more than 80 per cent between 1926 and 1932.

Many factors combine to make the purchase of stock in their employing companies a questionable form of investment for the lower-paid groups of wage-earners. What the low-wage worker needs is not a chance at speculative gain but security of principal.

Unemployment, part-time work and wage cuts are almost certain to occur at the very time when stocks are selling at a low figure. Under the circumstances investment in company stocks had failed to protect adequately employee savings at the time when they were most needed.

The possibilities for future developments of stock-purchase plans lie in the formation of investment trusts or the limitation of sales to selected employees who can afford the risk.[1]

28. Limitations of Profit Sharing in General.—To what extent does profit sharing accomplish its objectives? Profit sharing, unlike gain sharing, does not reward the individual worker in proportion to his superior or increased productivity. Hence its effectiveness as an industrial stimulus is questionable. The relationship between increased exertion and increased profit on the part of the individual worker is not direct. It assumes a social consciousness and an industrial *esprit de corps* which is often lacking. On the other hand, if it succeeds in develop-

[1] Industrial Relations Section, Princeton University, "Employee Stock Ownership and the Depression."

ing these valuable qualities, profit sharing is desirable. If it aids in fostering sympathy and mutual regard for the importance of labor, business enterprise, and invested capital, it is of economic service.

Experience has shown that profit sharing may produce contention instead of cooperation. Profits are often reduced by changes in demand and other influences beyond the control of management. Although production may have been carried on more efficiently than ever before, losses rather than profits sometimes stare the enterpriser in the face. Are the workers ready to share these risks of industry? The elimination of the enterpriser will not eliminate his functions as the shock absorber of modern economic society.

Organized labor has criticized profit sharing, just as it has opposed employee representation. It has charged that the fair market rate of wages or the full marginal product of labor has not been paid where cash bonuses were distributed to make up the difference. Labor prefers a high and definite rate of wages to participation in profits.

Moreover, labor leaders view such attempts of employers as efforts to weaken labor organizations and to disarm them of their weapons of collective bargaining. To these alone the workers must look for increased wages and improved conditions. Although schemes of deferred profit sharing appeal to the employer as clever devices for reducing labor turnover and industrial unrest, they undermine the independence of the worker and check the mobility of labor. At best, they are regarded by organized labor as the paternalism of some well-intentioned employers.

The practical test of experience also can be applied to profit sharing. In both Great Britain and the United States, such schemes have shown a high rate of mortality. About one-half of the early profit-sharing enterprises were subsequently abandoned. The sequel to this story is recent experience with employee ownership of stock, which was popular before 1929 but unpopular during the years of depression which followed. Such experience seems to reveal a fundamental weakness, not only in this particular form of profit sharing, but also in the general movement.

It should be remembered, however, that the proportion of ordinary business failures is so great that it is remarkable how many individuals fly in the face of statistics and engage in business for themselves. Again, little progress would be made if it were not for ambitious individuals who are constantly snatching success from failure. The record of all inventions, discoveries, and business ventures is strewn with failure.

Profit sharing is a rather dubious economic experiment, but it has been successfully done by individuals with sufficient vision, tact, and executive ability. These striking individual successes prevent us from feeling that too much social and individual effort has been expended in this cooperative effort. There are many paths which lead to industrial progress.

Summary.—Industrial democracy represents a reaction against the centralized control and autocratic operation of industry. Its two chief manifestations are employee representation and profit sharing, *i.e.*, the participation of workers in the control and in the ownership of industry. Industrial democracy expresses the copartnership concept of industry.

Industrial representation is illustrated by works councils and joint industrial councils. It may be restricted to the employees of one business organization and function through company unions, or it may be broader in its scope and related to the trade-union movement. The works councils of Europe are generally an integral part of the organized labor movement. The company unions of America are generally independent of trade unions. Organized labor is hostile to company unions and refuses to regard them as legitimate associations for effective collective bargaining.

Profit sharing generally accepts the wage system. It provides merely for some participation in profits by the workers in addition to a basic or minimum wage. Gain sharing, in contradistinction to profit sharing, seeks to make the individual's share of profits dependent on his individual productivity, rather than on that of the entire group.

The simplest form of profit sharing is the sliding scale, which assumes profits vary with the price of the product. Other forms of profit sharing make workers' participation in profits vary with the net profits of the business, rather than with the price of the product. Profit sharing may take the form of a cash bonus or of some type of deferred saving. One of the most important phases of the profit-sharing movement in recent times is the attempt to make the employee a stockholder in the industry.

Although there are some conspicuous illustrations of successful profit sharing, most of these attempts have been short-lived or restricted in scope. A successful enterpriser and farsighted employees are essential; the success of profit sharing also depends on general market conditions. Many plans of profit sharing have led to internal dissensions or have failed to provide sufficient incentive to increased production.

Within the United States, employee representation and profit sharing have generally been inauguated by employers. They have frequently been accompanied by intensive personnel work within the plant and by extensive welfare programs outside the plant. Employee representation and profit sharing usually have been twin aspects of industrial democracy and related phases of industrial paternalism.

Questions for Discussion

1. What do you understand by industrial democracy in its broad sense and in its narrow sense?
2. Contrast industrial paternalism with industrial democracy. Illustrate each.

3. Compare the development of industrial democracy in Europe with that in the United States. Suggest reasons for differences.

4. Trace the rise and decline of employee representation in the United States. Give reasons for changing tendencies.

5. Outline chief types of employee representation. Explain and illustrate each.

6. Make out a case for or against company unionism.

7. *a.* How is profit sharing related to employee representation?
   b. Relate each to personnel administration and to welfare work.

8. *a.* Distinguish profit sharing from gain sharing.
   b. Compare profit sharing with premium plans.

9. *a.* Outline various types of profit sharing.
   b. Which do you regard as the fairest? The most practical? The most promising? The most disappointing? Give reasons in each case.

10. *a.* How do you explain the frequent failures of profit sharing?
    b. What general conditions seem essential to its success? Why?

Topics for Investigation

1. Works committees and industrial councils in England.
2. Industrial representation in Germany.
3. Occupational representation in Russian soviets.
4. Occupational representation in Italian guilds.
5. Colorado plan of industrial representation.
6. Structure and function of some company union with which you are familiar or in which you are interested.
7. Organized labor and employee representation.
8. Company unionism under the National Industrial Recovery Act and under the National Labor Relations Act.
9. Sliding scale of profit sharing.
10. Profit sharing in one or more small establishments.
11. Profit sharing in some large company, *e.g.*, a public utility.
12. Employee ownership of stock plans and experience.

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PART SIX

COMPREHENSIVE PROGRAMS OF ECONOMIC RECONSTRUCTION

Chapter XX. The Cooperative Movement, *Elimination of Individual Enterpriser.*
Chapter XXI. Socialism and Syndicalism, *Elimination of Capitalism.*
Chapter XXII. Industrial and Social Progress, *Elimination of Maladjustments.*

CHAPTER XX

THE COOPERATIVE MOVEMENT

ELIMINATION OF INDIVIDUAL ENTERPRISER

1. Nature and Significance.—Works councils and profit sharing involve merely the copartnership concept of labor and management. The cooperative movement, however, would dispense altogether with the business enterpriser. A business would be run, not by an individual or a corporation organized for profits, but by an association of workers or consumers. In the absence of the enterpriser, private profits would be divided among workers or consumers. The cooperative movement represents collective, rather than individual, enterprise in the production and distribution of economic goods.

2. Cooperation Compared with Socialism and Capitalism.—State socialism is political; it is superimposed from above. The cooperative movement is more economic than political; it is a group, rather than a national, experiment. Cooperative associations can grow up within our capitalistic society without destroying it. They can demonstrate their merit or lack of merit in comparison with the present competitive and individualistic system. Indeed, a cooperative association has been regarded as socialism within the test tube. The status of private property rights, however, is different under the two systems. The cooperative movement recognizes not only the importance of capital, but also the propriety of private property rights in producers' goods. Hence the cooperative movement is a kind of compromise between capitalism and socialism: it retains private property, but reduces individual enterprise; it recognizes profits, but diffuses them. Both socialism and the cooperative movement substitute collective effort for individual enterprise, cooperation for competition, and social service for private gain.

3. Aims of Cooperation.—The primary objective of any truly cooperative movement is the substitution of mutual benefit for private profit. Its immediate aim is the reduction of the economic wastes of our competitive system by the elimination of middlemen and individual employers. Its ultimate aim is the gradual evolution of a cooperative commonwealth by peaceful, educational means.

4. Kinds of Cooperation.—The cooperative movement has many phases, and cooperatives can be divided into various types. Some of

these classifications overlap. Thus there are producers' cooperatives, consumers' cooperatives, and distributors' cooperatives. There are cooperative organizations for the selling of goods and cooperative organizations for the purchasing of goods. Again, there are agricultural cooperatives for the farmer and other cooperatives for industrial workers and city residents. Finally, there are pure cooperatives and various compromise arrangements.

Consumers' cooperation is represented by cooperative stores, which may be subdivided into wholesale and retail cooperatives. Cooperative retail stores divide profits among their members according to their purchases. Cooperative wholesale stores do the same for their own

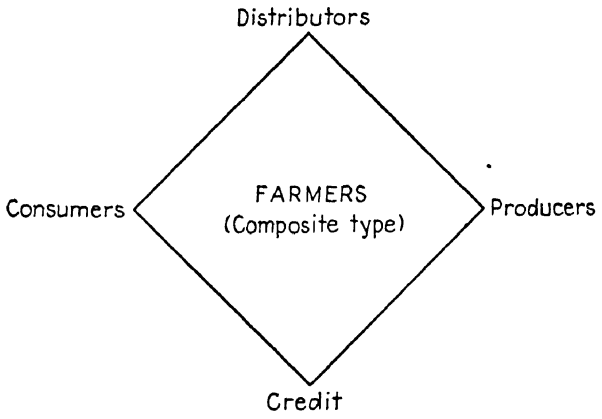


CHART 47.—Kinds of cooperation.

members, which are cooperative retail shops in Great Britain and individual enterprises in this country.

Producers' cooperation is represented by factories or stores, owned by the workers, run by the workers, and with profits divided among the workers.

Distributors' cooperation might more properly be called "marketing cooperation." It seeks to reduce the wastes of our present system of distributing goods by a more intelligent and mutually helpful coordination of effort. It would eliminate the private profits of the middleman and the commission merchant. Distribution in this sense means the marketing of goods, particularly agricultural products, and does not refer to the division of the national income among the various factors in production.

Cooperative credit associations are represented by mutual savings banks, mutual life insurance companies, and cooperative loan associations. Savings and loan associations for the financing of home purchases also fall within this category.

Agricultural cooperation is a composite form, because it includes one or more of these specific types of cooperation. Cooperative producing associations, cooperative marketing associations, cooperative credit associations, or a combination of them, are represented. Distributors' cooperation for the better marketing of various crops is perhaps the most important aspect of agricultural cooperation.

5. Rochdale Cooperative Plan.—Consumers' cooperation dates from the famous Rochdale cooperative store, opened in 1844, in England. Although advocated by Robert Owen, the Rochdale plan was devised by neither theoretical economists nor practical captains of industry, but by a score of humble flannel weavers. The capital for the original Rochdale cooperative store was subscribed by prospective purchasers who lived in the vicinity. Shares of stock, which had a par value of only £1 each, could be purchased by individuals in moderate circumstances. A fixed return of 5 per cent was specified before any surplus profits should be distributed. An old building on a side street was rented; the total sales of the first week amounted to only a few pounds. Such was the modest beginning of the most successful type of cooperation.

The general policy followed was that of charging current market prices for articles sold at the cooperative store. Profits were not placed in the market basket. A purchase check recording the amount of purchase was given every buyer. At the end of each quarter, total receipts were balanced against total expenses and the net profits of the store were computed. Surplus profits above the fixed return on the invested capital were then divided, not among stockholders in propertion to shares of stock held, but among purchasers according to purchases made. Profits were achieved because of the economy of collective buying at wholesale rates. Losses from bad debts were eliminated because the business was done on a strictly cash basis. Full publicity was given to financial records, a simplified statement of which was available to all members.

A unique feature of the Rochdale plan was its democratic form of management. Every stockholder possessed only one vote, and not one vote for every share of stock held. This is still the test of differentiation between a cooperative venture and an ordinary business organization.

Wide participation in the benefits of the cooperative store resulted from the provision that a prospective member need make a cash payment of only 1*s.*, or one-twentieth of the par value of a share of stock; one would then contribute the remainder in part payments out of his share of the profits earned. Nonmembers might buy at cooperative stores, but a share in profits was contingent on membership, which could easily be secured and which could be paid for out of future savings.

6. Development of Consumers' Cooperation in Great Britain.—The Rochdale plan was a success from its very beginning. Other cooperative stores, imitating its fundamental features, soon developed. Great Britain now has over a thousand retail cooperative stores, having millions of members and millions of pounds of invested capital; these retail cooperative stores do an annual business of several hundred million pounds.

Consumers' cooperation also spread upward from retail to wholesale stores. The *English Cooperative Wholesale Society* was formed in 1864 to buy collectively for its cooperative retail stores. Its object was absorption of profits of individual jobbers and wholesalers. Profits of this cooperative wholesale society were similarly distributed among

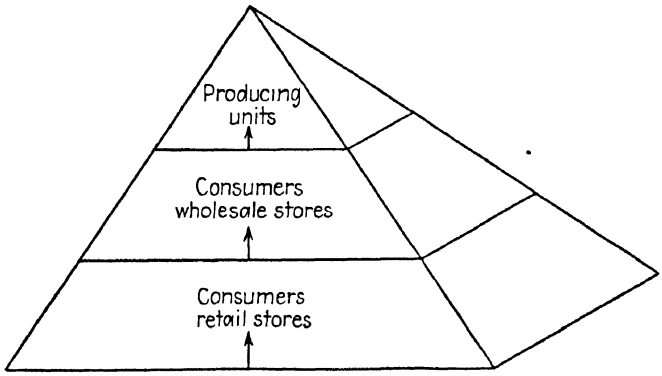


CHART 48.—Development of cooperative effort.

its member retail stores in proportion to their purchases. Total annual sales of the English Wholesale Cooperative Society alone have averaged about £100 million.

The step from cooperative wholesale societies to cooperative manufacturing and farming was as natural as that from retail stores to wholesale societies. Cooperative wholesale societies began to manufacture and to grow certain products for themselves, instead of continuing to buy them from profit-making producers. The English Cooperative Wholesale Society is now the largest flour miller and the largest biscuit manufacturer in Great Britain. It is engaged also in the manufacture of clothing, furniture, groceries, and numerous other articles. It maintains ironworks and coal mines in England and tea plantations in Ceylon. Its own merchant fleet carries its products from one part of the globe to another.

7. Advantages and Limitations of Consumers' Cooperation.—The obvious advantages of consumers' cooperation are reduction in costs of living and promotion of thrift. Standardization of economic wants and

elimination of waste also are important. Moreover, there are social as well as economic advantages; these include the substitution of cooperation for competition and the ideal of mutual benefit for that of individual gain.

Cooperative societies strive to maintain good working conditions and to pay their employees fair wages, but their workers do not necessarily possess industrial representation or a voice in management. Moreover, employees of consumers' cooperative societies do not receive shares in the profits except insofar as their purchases there warrant.

8. Consumers' Cooperation in Europe and the United States.—The cooperative movement spread from England to Scotland, Wales, and Ireland, and from Great Britain to the continent of Europe; it was especially successful in the Scandinavian countries.

Within the United States, consumers' cooperation has lagged. As American wages have been higher than those in Europe, economic pressure toward thrift and economy has been less severe here. Moreover, it is alleged that the American is an individualist and less experienced in cooperative movements. Again, retail stores are very attractive in this country; their variety delights the American consumer, who may be less willing than the English consumer to standardize his consumption. The relative mobility of labor and the heterogeneous character of our industrial population may be additional contributory factors.

Whatever the causes may be, the fact remains that cooperative stores are relatively rare in this country. The movement has been thwarted by ignorance or indifference, and by reluctance or resistance; it has been characterized by modest success or actual failure. Although many enterprises have posed as cooperative stores, they have used this slogan for the purpose of increasing sales through minor discounts or petty bonuses.

On the other hand, this country has witnessed the development of chain stores, department stores, and mail-order houses. Because of their economies of large-scale purchase and large-scale management, such organizations have frequently been able to cut prices and to undersell small retailers. Americans have patronized chain stores avidly, under the immediate stimulus of taking their profits in the market basket.

9. Cooperative Wholesale Associations in the United States.—At present, cooperation or extinction seems to be the choice of independent neighborhood stores in the large cities of the United States. Consequently, many wholesale cooperative associations have come into existence. Some of them have had a rather lengthy and successful history. The most noteworthy are organizations of retail druggists and grocers, who found it necessary to organize in order to protect themselves against the competition of chain stores.

The specific purpose of these cooperative associations is to permit the retail druggist or grocer to enjoy the economies of purchasing in large quantities, which appears to be the chief advantage possessed by chain stores. These retail merchants are individual enterprisers in business for profit and in competition with each other. Nevertheless, their wholesale organizations are cooperatives, for profits are divided among members according to their respective purchases.

The Philadelphia Wholesale Drug Company is such a cooperative organization. Its shares of stock are owned by a membership composed of retail druggists, who purchase their goods from the cooperative wholesale association. Nonmember druggists also can purchase from this organization, which does an annual business of millions of dollars. The Frankford Grocers' Association, a similar cooperative wholesale organization, has been in existence for almost half a century.

10. Producers' and Consumers' Cooperation Compared.—Consumers' cooperation seeks to reduce prices and to lower costs of living, whereas producers' cooperation seeks to raise wages and to improve working conditions. Consumers' cooperatives divide profits among buyers; producers' cooperatives divide profits among workers. Consumers' cooperatives seek to achieve economies through cooperative stores; producers' cooperatives seek industrial democracy through the worker-managed factory. Consumers' cooperatives are not so old as producers' cooperatives, but they have been more successful.

The two types of cooperation are similar in that each substitutes collective action for individual initiative; each eliminates the enterpriser. Moreover, both plans are based on individual representation instead of shares of stock; one man, one vote, is the general principle of all cooperative enterprises.

11. Origin and Development of Producers' Cooperation.—Producers' cooperation, like profit sharing, seems to have originated in France. The revolution of 1848 gave a stimulus to self-governing workshops, but the movement was a general failure, or, rather, the original idea of Louis Blanc was never fairly applied. At a still earlier date, even more ambitious experiments in cooperation, including producers' cooperation, were attempted by Robert Owen at New Lanarck in Scotland and at New Harmony in the United States. These experiments aroused great interest and much opposition, but they left few permanent results. The repeated failures of producers' cooperation stand out in marked contrast to the brilliant success of consumers' cooperation.

Within the United States, there were sporadic attempts at producers' cooperation, such as those of the Knights of Labor. Although the record has been one of general failure, there are such notable exceptions as the Cooperative Barrel Manufacturing Company of Minneapolis and the Columbia Conserve Company of Indianapolis. A study by the Bureau

of Labor Statistics in 1925 showed only thirty-nine schemes of producers' cooperation then in operation in the entire United States. Moreover, even this small number was decreasing, for in 1930 the Bureau of Labor Statistics reported only twenty plans of producers' cooperation then in existence in this country.

12. Difficulties of Producers' Cooperation.—It is not easy to secure investment capital for experiments in producers' cooperation. Workmen's savings are a meager source from which to draw, and the capitalist is not apt to lend funds to an enterprise of which he doubts both the desirability and the practicability.

Managerial ability also is rare. Workers are not always good businessmen, for the successful enterpriser is a combination of natural ability, acquired education, and managerial experience. Workers have often failed to realize the importance of business enterprise to successful production and have failed to offer sufficient reward to attract capable managers. Numerous cooperative schemes, which were headed by honest but inexperienced individuals, have failed because of the lack of competent and seasoned leadership.

Where producers' cooperation has been a success, there has frequently developed opposition to the entrance of new workers on equal terms. The result is a corporation with hired employees, some of whom own shares of stock. When the principle of one man, one vote, yields to the principle of one share of stock, one vote, the organization has ceased to be cooperative in the strict sense of the word. The capitalization of past successes and present profits by the veteran members generally terminates the experiment in producers' cooperation.

Producers' cooperation has fared better in small establishments requiring skilled craftsmen than in those employing abundant capital and unskilled labor. The existence of a relatively stable demand for the product is another element favorable to the success of producers' cooperation.

13. Agricultural Cooperation.—Farmers have often cooperated with each other in building barns and harvesting crops, but the development of capitalistic agriculture necessitated still further cooperation. Expensive machinery not needed continuously may be owned collectively by a group of farmers. A simple form of cooperation is such division of investment, under which each farmer buys a different machine, lends that to other farmers, from whom he borrows other machines. This sort of cooperation has been more highly developed through mutual associations of farmers, which buy machines collectively and then rent them to members.

Cooperative purchasing also plays an important part in agricultural cooperation. Over half the 10,000 cooperative associations supported by farmers reported purchasing functions among their various activities.

These purchases consist largely of feed, fuel, containers, building materials, seed, fertilizer, machinery, tools, and other articles in common use by the farmer. The cost of handling these goods for distribution by cooperative purchasing agencies has been as low as 1½ or 2 per cent of their purchase prices.

The most important phase of agricultural cooperation, however, is that of marketing. Farmers' products require transportation and storage; they also require sorting, packing, and selling. These services have been performed by commission merchants and other middlemen. They may be performed more beneficially by cooperative associations of the growers themselves.

Farm products may be perishable foods, which necessitate prompt and local disposal, or agricultural staples, which can be stored in huge quantities for long periods. Efficient marketing is necessary to prevent loss of product in the one case and loss of value in the other case.

14. Examples of Marketing Cooperation in Agriculture.—*Fruits and vegetables* are cooperatively marketed on a large scale. At the present time, in this country alone, fully 200,000 individual growers support over 1,000 marketing cooperatives. Some of these agricultural cooperatives are local and serve merely neighboring markets, such as the Cooperative Society of Hammonton, N. J., which for many years has shipped various kinds of berries to Philadelphia and other neighboring cities. National markets require larger cooperatives. Among them are several Western and Southern organizations, which ship various kinds of fruit all over the United States and Canada. These large cooperatives may be federations of small local cooperatives, such as the California Fruit Growers' Exchange, or centralized organizations, such as the Sun Maid Raisin Growers. The Florida Citrus Exchange is a rival cooperative of similar organization and like purpose. The Northwestern states market their apples and other fruit crops through kindred cooperative organizations.

Cotton growers suffered from inadequate marketing facilities and from precipitous declines in the price of cotton. Hence, they formed cooperative associations for the ginning and marketing of cotton. These cooperatives had considerable success, but they were unable to achieve stabilization of price because only a relatively small portion of our cotton crop was controlled by these cooperatives. In marked contrast and with greater success, the California Fruit Growers' Exchange marketed the bulk of our lemon crop; it was able to restrict production and to maintain price.

Grain growers in the West, like cotton growers in the South, suffered from inadequate marketing facilities and from serious declines in price. Long before the recent agricultural depression, various granger move-

ments had stimulated voluntary experiments in cooperative marketing by farmers. These organizations included cooperative grain elevators, or warehouses for the storage of wheat, state or regional pools for price maintenance, and, finally, producer-controlled cooperative selling agencies. These associations sought to secure a fair grading of wheat, its adequate storage, regulation of competition, and reduction of speculation.

Agricultural cooperatives have engaged in processing, as well as marketing, goods. The *dairy industry* abroad and at home is an outstanding example. Many creameries, notably in Denmark and Wisconsin, are cooperative ventures of local farmers in the surrounding territory, whose milk they churn into butter and cheese, sold collectively under the trade name of the cooperative.

15. Governmental Aid to Farmers.—The Federal Marketing Act of 1929 further stimulated the growth of cooperative associations among farmers. The Federal Farm Board sought to stabilize farm prices through the purchase of agricultural staples. The Agricultural Adjustment Act of 1933 and subsequent legislation gave farm subsidies and granted crop loans; it sought to raise prices by rewarding restriction of output.

16. Cooperative Credit.—Cooperative credit societies developed in Germany about the middle of the last century. They took the form of small unincorporated associations of farmers or tradesmen. The savings of members were placed on deposit and might be borrowed by other members for legitimate and carefully supervised purposes. Rates of interest to members were cheaper than those charged by commercial banks, and most of the officers served without compensation. The absence of limited liability meant that greater care was exercised in granting loans.

Credit unions, the American name for credit cooperatives, are a more recent development in this country. They have been most common and successful among homogeneous groups, such as teachers, railroad workers, and postal employees. Small loans are made from funds of the association, which come chiefly from subscriptions of members to the stock of the credit union. Although collateral is not always required, each loan is carefully investigated, and each application is generally endorsed by several fellow members. The interest charges of these credit unions have not always been low, but they have generally been lower than those charged by loan companies organized for profit, to which the poor man without collateral would otherwise have been forced to resort. Moreover, profits go, not to an individual enterpriser, but back into the funds of the cooperative credit union.

17. Mutual Savings Banks.—Savings banks developed as institutions to promote thrift and to enable workers safely to invest their small earnings. The first savings bank in America was instituted in New York

in 1816 after an English model. Early savings banks were cooperative in the sense that they were mutual. There was no capital stock; deposits constituted the entire source of loanable funds. Profits were proportionately divided among depositors. Later mutual savings banks had capital stock but paid the stockholders a fixed rate of interest and divided all profits in excess of this amount among their depositors instead of among their stockholders. As under the Rochdale plan, patrons shared profits proportionately.

In Great Britain, cooperative credit developed apart from consumers' cooperation. In 1872, however, the English Cooperative Wholesale Society embarked on this new venture. At first, English cooperative banking was far from successful, but the experiment was continued with gradual improvement.

Many cooperative banks within the United States received their chief impetus from trade unions. An example was the Brotherhood of Locomotive Engineers' Cooperative Bank, opened in Cleveland; a similar banking venture was made by the same organization in Philadelphia. The Amalgamated Clothing Workers also entered the banking business. Stock was issued in shares of small par value; trade unionists constituted the majority of stockholders and depositors. Some of these banks failed; most of them met with only modest success.

18. Mutual Insurance Companies.—Insurance represents both thrift and protection. It is the workers' chief bulwark against industrial insecurity and the risks of everyday life.

Most life insurance companies and some property insurance companies have been mutualized; *i.e.*, policyholders become stockholders automatically. Even when operated for profit, the very nature of insurance is cooperative, for it diffuses risks over the entire group. Insured individuals who do not suffer loss compensate, financially at least, those who do. If an insurance company is mutualized or profit sharing, it is even more cooperative in character, for profits in excess of costs of operation, payment of benefits, and reserve requirements are distributed to policyholders or deducted from their premiums. Most beneficial associations are cooperative societies, but they have often failed to provide adequate reserves for their contingent liabilities.

19. Savings and Loan Societies.—The first building and loan association in America was founded in Frankford (now a part of Philadelphia) in 1831. Its purpose was to encourage thrift and home ownership by providing a society into which members could regularly and safely deposit savings, and from which members could easily and economically borrow funds for the purchase or improvement of their own homes.

After a century of community service, many building and loan associations collapsed; their members suffered severe losses during the

depression years from 1929 to 1933. Consequently, the Roosevelt administration reorganized mortgage banking for home and farm. Federal savings and loan associations came into existence for the promotion of thrift and home ownership. Funds deposited therein were guaranteed up to a modest sum in a manner comparable to deposits in commercial banks. Home Owners' Loan Banks were created to rediscount long-term paper of member savings and loan associations, just as Federal Reserve Banks rediscount the short-term paper of member commercial banks.

Summary.—The cooperative movement eliminates the individual enterpriser and substitutes collective action for private initiative. Unlike state socialism, cooperation functions within small groups; it permits payment of interest on capital and rent for land. Both movements have their international and humanitarian aspects; both are democratic in nature. Cooperation is more economic than political; it is evolutionary, not revolutionary; it is voluntary and educational, not coercive.

The cooperative movement presents four phases: consumers' cooperation, producers' cooperation, distributors' cooperation, and cooperative credit. Agricultural cooperation is composite; it includes all four of these types.

The Rochdale Cooperative Store was the pioneer experiment in consumers' cooperation. It was eminently successful and spread from England to other parts of the British Isles and to the continent of Europe. It was extended from retail stores to great wholesale organizations, which manufacture and import their own products. Although consumers' cooperation developed well and widely in Great Britain, Scandinavia, and other European lands, it has not made such headway in the United States.

Producers' cooperation, exemplified by a collectively directed group of workers engaged in manufacture, has been neither common nor successful. The individual enterpriser is eliminated, for the workers own and plan their collective enterprise. Lack of capital, scarcity of managerial ability, and the constant temptation to exclude new workers limit the success and often terminate the existence of schemes of producers' cooperation.

Distributors' cooperation is primarily for the marketing of agricultural crops. It has been especially successful among growers of fruits and vegetables. Dairy products are processed, as well as marketed, by cooperative associations.

Various types of cooperative credit associations exist. Prominent among them are the loan associations of Germany and the savings and loan associations of the United States. Cooperative banking institutions

are illustrated by mutual savings banks. Land banks are cooperative organizations for the extension of cheap credit to farmers.

Insurance is a cooperative business, because it diffuses risk. It stimulates thrift and provides protection. Many life insurance companies are mutual; *i.e.*, their policyholders participate in dividends.

Questions for Discussion

1. Compare cooperatives with profit-sharing schemes.
2. *a.* How does the cooperative movement differ from socialism?
   b. Wherein are they similar?
3. Outline and compare different types of cooperation.
4. Explain carefully the plan of the Rochdale Cooperative Store.
5. Why do you think that consumers' cooperation has met with so little success in the United States in comparison with its signal success in Great Britain?
6. *a.* What is producers' cooperation? Illustrate.
   b. Compare with consumers' cooperation.
7. Why has producers' cooperation been less successful than consumers' cooperation?
8. Explain and illustrate various types of cooperative credit.
9. Explain and illustrate various types of agricultural cooperation.
10. What are the chief aims and accomplishments of marketing cooperatives? Explain and illustrate.

Topics for Investigation

1. Rochdale pioneers in the cooperative movement.
2. Producers' cooperatives in France.
3. Cooperative marketing in the United States.
4. Trend toward mutualization in insurance.
5. Cooperative ventures of labor organizations.
6. Federal savings and loan legislation.
7. Grain and cotton cooperatives in the United States.
8. Restriction of production and stabilization of price by cooperative associations.

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CHAPTER XXI

SOCIALISM AND SYNDICALISM

ELIMINATION OF CAPITALISM

1. Nature of Socialism.—There are so many different types of socialism that only a broad definition is possible. This seems to lie in the substitution of collective ownership and control of industry for individual initiative and private enterprise. The profits motive is to be eliminated or reduced in favor of the social-service motive of production for use. Industrial absolutism is to be supplanted by a democratic organization of the workers.

Socialism then involves some fundamental changes in the institution of private property. Although permitting property rights in consumption goods, socialism restricts them in land and capital. Socialism seeks to eliminate property incomes from such sources as inheritance, rent, interest, and profits. Wages would be the only form of income, and all incomes would be earned incomes. Although socialists differ among themselves as to differentials in wages, they regard reasonable salaries of managers and professional men as earned incomes.

2. Comparison with Other Movements.—The *cooperative movement* would eliminate the individual enterpriser, and *single tax* has no place for the landlord, but socialism would go still further by eliminating also the capitalist. On the other hand, it does not go so far as *communism*, which refuses to recognize any property rights whatsoever, even though, as a practical matter and as a temporary measure, compromises may be effected.

Socialism is entirely different from *anarchism*, although the two movements are commonly confused. Anarchism seeks the reduction of governmental functions and the elimination of the political state, although this may be done by evolutionary instead of revolutionary methods. State socialism, on the other hand, seeks the increase of governmental functions, for it proposes that the state own and operate all basic industries. In short, the two movements are at opposite poles, for anarchists minimize political action and would destroy the state, whereas socialists magnify political action and would glorify the state by extending its functions from the regulation to the operation of industry.

3. Relation to Other Programs.—Socialism does not propose the elimination of religion, the church, or the institution of the family,

It is true that certain early socialists were atheists and that some proposed to substitute promiscuity for the monogamous family. Their radical religious and social proposals, however, have nothing to do with the economic creed of socialism. There are Christian socialists and agnostic capitalists. It might be argued with equal falsity that all socialists are Christians and that all capitalists are agnostics.

There are many programs of social reform which are socialistic, but which are not socialism because they do not involve the collective ownership and operation of industry. The defeat of such measures is sometimes accomplished by the use of invective, rather than reason. The specter of socialism is paraded through the legislative halls with deadly effect.

4. Socialists' Indictment of Competition.—Socialists usually begin their arguments with a criticism of the present economic system, rather than with a statement of the proposals of socialism. To a mind in which a burning consciousness of the evils of modern capitalism has been aroused, the future promises of socialism stand out in bright relief. Remedial measures and specific reforms are slighted; socialism in general or a certain type of socialism in particular is advocated as the way of economic salvation.

Socialists indict capitalism on the ground that the present competitive system is wasteful. There is an unnecessary duplication of material equipment and human effort. The railroads, for example, developed as competitive enterprises under individual initiative. The result is the present struggle to create integrated systems and to bring order out of chaos. Would it not have been better had the state or some other central agency directed the railroad development of the country? The natural tendency toward, and the benefits of, regulated monopoly are evident also in other industries. Our economic development has been from small-scale manufacture to large-scale manufacture and from large-scale manufacture to large-scale management. As private monopoly is dangerous and difficult of regulation, the conclusion of governmental ownership and operation is reached.

The advantages of monopoly result from economies of large-scale manufacture and management with the consequent elimination of wastes of competition. The advantages of big business can be seen in the meat-packing and steel industries and, especially, in public utilities. There are advantages in administration and distribution, as well as in manufacture. Cross freights can be eliminated and goods shipped from the nearest point to the consumer. Witness the economies of a large mail-order house or a large department store with its unified credit and delivery departments. On the other hand, note the lost effort which results when numerous milk wagons and bread boys cover the same route, to the dis-

comfort of the sleeping millions of our large cities. Compare this situation with the distribution of the mail by a single centralized governmental agency.

Socialism would reduce not only marketing costs and selling expenses, but also the enormous wastes of competitive advertising. Ugly billboards would no longer shriek the merits of *X* kidney pills as compared with *Y* kidney pills or *A* shaving cream as compared with *B* shaving cream.

That the present system does not work smoothly is attested by the business cycle, with its recurring periods of depression. Socialists claim that misdirected production and economic crises will continue until individual enterprise in the basic industries is replaced by economic planning through a central governmental agency. Governmental ownership and operation would substitute the economies of monopoly for the wastes of competition and the stability of monopoly price for the fluctuations of competitive prices.

5. Economic Inequality and the Profits Motive.—Another criticism of the present economic system arises from the persistence of glaring inequality of wealth and income. Conspicuous consumption exists, on the one hand, and dire poverty, on the other. As these issues were discussed in Chap. VI, they will not be reviewed here. It will be sufficient to note that socialists content that, if all incomes were earned and if all property incomes were eliminated, such economic inequality would be reduced.

The socialist also criticizes the profits motive, which directs production under our present system. Economic demand, rather than social welfare, is the indicator which production now follows. Inequalities in income make possible the production of luxuries for some before necessities for all.

The quality of economic goods, as well as the character of production, suffers from the profits motive. It is profitable to produce shoddy cloth, to adulterate food, and to make things which are injurious to their users but which have a ready market. "Illth," rather than wealth, is the result.

The method of production also is important. Goods are made in ugly factories which belch out clouds of smoke into the air we breathe and which pour streams of refuse into the water which is used by towns farther down the river. Public health and aesthetic values are threatened by this spirit of gain. The conservation of natural resources is impossible in a pecuniary society dominated by the profits motive.

The sordid profits motive has developed our acquisitive traits and inhibited our cooperative efforts. The esteem of one's fellows, or social recognition, is desired by every member of society. The valor of the

soldier and the research of the scientist are rewarded by the laurel wreath, rather than by monetary compensation. To certain groups at all times, and to all groups at critical times, the social-service spirit transcends the profits motive. Such a nonpecuniary incentive could be extended to normal industrial life, were it not that the profits motive has contaminated our economic order and has expressed success in terms of the dollar mark. Social recognition, rather than the accumulation of fortunes, might have proved an adequate reward for those great captains of industry who have led the army of economic progress.

In the last place, socialism indicts the present system as productive of human, as well as of economic, wastes. Not only does the profits motive lower the social plane of competition and degrade human nature, but it is responsible also for certain economic maladjustments, many of which have been discussed in earlier chapters. Child labor, unemployment, dangerous trades, and occupational diseases are laid by socialists at the door of modern capitalism. In spite of the fact that labor is the source of all wealth, the wages of many workers are inadequate to maintain decent standards of living. Because the instruments of production are owned by a propertied class, labor is exploited and does not receive its full product. Much of this, it has been argued, would be reduced or eliminated by socialism.

6. Essentials of Socialism.—The very definition of socialism reveals its fundamental proposal, that of collective ownership and operation of the instruments of production. Radical socialists would apply collective ownership to all instruments of production; they would permit individual ownership only of one's own home, clothing, and personal effects. More conservative socialists, however, would apply collective ownership only to basic industries. Between these two extremes are many compromise positions. Most socialists would permit the farmer to claim as much land as one person could cultivate. He could not rent an excess amount to another individual, nor could he hire a laborer to till his land for him, for in such event the wage system or the landlord would be reintroduced. Although individual tradesmen might be permitted in those businesses which are by nature small scale, all large stores and manufacturing plants would be collective enterprises.

The change from individual to collective ownership of industry involves a process of confiscation to which many people object. The socialist replies that the landlord and capitalist have already confiscated for themselves the free gifts of nature and the sweated products of workers. Socialism is therefore not confiscation, but recovery. Moreover, the old argument of confiscation opposes all social reform. The abolition of human slavery involved the confiscation of the property of the poor widow who owned but a single slave. In order to avoid the

charge of confiscation, a socialistic state might purchase private industries from their present owners by exchanging corporate stocks and bonds for the governmental bonds of the new socialistic state. In this manner, collective ownership of industry might be established without confiscation; but unless these government bonds were to become worthless, interest must be paid on them. That would constitute a form of property income repugnant to many socialists.

Socialism, then, proposes the elimination of most forms of income except wages. Although earned income is the only type of income recognized, it includes the rewards of brain as well as of brawn. Moreover, socialists do not insist that all incomes should be the same, even though all must be earned.

The slogan of communists is: "From each according to his ability and to each according to his needs." Such a system of distribution is one of flat equality of income, or one which recognizes only those differences due to variations in size of family or nature of occupation. The ideal of most socialists, however, is that of acquisition according to productivity along socially desirable lines. Such a system of distribution has been termed a "functional economy," in contrast to the flat equality of communism or the glaring inequalities of capitalism. It was discussed in Chap. VI.

7. Wages and Prices under Socialism.—Most socialists recognize the necessity for a moderate wage differential in proportion to economic productivity, or at least in proportion to individual effort. If all workers received the same wage irrespective of their economic productivity, there would be a dangerous tendency toward idleness or soldiering on the job. To apportion income according to the size of one's family would be to accentuate the Malthusian tendency and to reward biologic productivity, rather than economic productivity.

The exact method of determining wages under socialism is a matter of considerable controversy. There would probably be a minimum wage in order to prevent less fortunate or less able individuals from living below a decent standard of living. Above this line, wages would vary according to the subjective sacrifices or the objective productivity of the workers. There would be neither enormous salaries nor property incomes.

Under the competitive system, prices of goods and wages of labor are determined in the open market by the forces of supply and demand. Under socialism, price as the controlling and organizing factor would play a less important role. Socialism does not necessitate the complete elimination of the price system, although it does considerably modify it. It would be necessary for some central agency to plan production and to decide what goods should be produced, in what amounts, and by what

order of priority. Again, that same or another governmental bureau would be forced to determine the productivity or sacrifice of an individual worker in order to fix his wages.

The price of a particular commodity might be evaluated solely in terms of the amount of labor which it represents and without regard to other productive factors, such as rent, wages, and profits. Again, prices might be scaled in accordance with social needs without reference to costs of production. Thus a high price would discourage the consumption of scarce or deleterious commodities, and a low price would encourage the consumption of plentiful or beneficial commodities. It is difficult to conceive of any governmental agency qualified to perform such a task or of any method by which this might accurately be done in the absence of a competitive price fixed by the natural forces of supply and demand.

Banks would be public and not private institutions. There might well be commodity money and bank notes, which, however, would be direct obligations of the government. On the other hand, wages might be paid in labor checks which, in turn, could be used for the purchase of goods from governmental stores. Many early socialists proposed to substitute labor checks for commodity money.

8. Other Proposals of Socialism.—Socialism proposes to substitute industrial democracy for industrial absolutism. Control by the workers through some form of industrial representation is regarded as essential. This factor in socialism was overlooked by many state socialists, who proposed governmental ownership and operation of industry, but who failed to provide for the democratization of industry. Centralized governmental bureaus failed to give the workers a voice in the control of industry. Hence guild socialism developed its ideal of the self-governing workshop, in contrast to the centralized control of state socialism.

There are other miscellaneous proposals of socialists, which, although not necessarily a part of socialism, are generally associated with it. Thus, socialists propose certain educational reforms. Children would be prevented from leaving school at an early age and going to work. Educational opportunity would be extended in all directions. The government, rather than benevolent individuals, would build museums and art galleries. The state would become the patron of the arts and sciences. Community centers, public playgrounds, and subsidized theaters would be provided for the recreation of all citizens of the socialist state.

Health and safety in industry, as well as improved housing and better living conditions, would be promoted. Municipal tenements would take the place of slums. Public hospitals would be open to all, and many physicians would be governmental officers paid by salaries instead of fees. Social insurance is not socialism, but the latter generally includes

the former. A socialistic state would provide not only workmen's compensation for industrial accidents, but also sickness insurance, unemployment benefits, and old-age pensions.

9. Tenets of Karl Marx.—The "Communist Manifesto," published in 1848, the year of revolution in Central Europe, was the political platform of socialism. It constituted the formal indictment of capitalism and contained various proposal of socialism. "Das Kapital," a later work of Marx, was an elaborate exposition of the economic theories of Marxian socialism. This monumental work is basic to all theories of socialism, whether of Marxian or of dissenting schools. It is equally basic to other radical schools of thought, such as communism and syndicalism.

Marxism, known also as "scientific socialism," is so fundamental that some of its leading principles must be outlined in any discussion of socialist theory or radical philosophy. These include the materialistic interpretation of history, the doctrines of concentration of capitalistic control and exploitation of the proletariat, the theories of labor value and surplus value, the overproduction theory of industrial crises, and the doctrine of class struggle.

a. Materialistic Interpretation of History.—Marx's materialistic interpretation of history, in brief, is that the economic organization is the determining factor in civilization. In other words, our political life, our social institutions, and even our religious and moral ideas are vitally affected by our economic techniques and institutions. Consequently the industrial revolution was of profound significance; it changed our entire civilization.

b. Concentration of Control.—The invention of power machinery and the introduction of the factory system resulted inevitably in the substitution of large-scale production for small-scale production. The consequence has been concentrated control of industry, illustrated by the modern trust. The craftsman and the small independent producer gradually disappear; the middle class or *bourgeoisie* will ultimately cease to exist. While the capitalists enjoy increasing power and wealth, the workers suffer from increasing poverty and misery.

c. Surplus Value and Exploitation.—Marx's doctrine of the exploitation of the proletariat, *i.e.*, workers who have been dispossessed of their instruments of production, is closely connected with his theory of surplus value. Starting with the then current classical view of Ricardo, Marx contended that the value of any commodity depends on the quantity of socially necessary labor contained in it. Labor was regarded as the primary or ultimate source of all wealth and capital was considered as stored-up labor. Inasmuch as interest, rent, and other forms of property income are permitted, the worker does not receive all the income which

he produces. A surplus value, or the difference between the wages of the worker and the value of his product, is appropriated by the capitalist. Hence, said Marx, labor is exploited.

d. Overproduction and Crises.—Another principle of Marxian socialism is that of overproduction as the cause of industrial crises. Because of the existing inequality of wealth, the poorer classes in society cannot buy enough. On the other hand, the wealthy groups have an income in excess of their needs and are forced to reinvest a portion of it in productive enterprises. The result is a further increase in production until more consumption goods are in existence than can be disposed of at existing prices to the masses of people who have insatiable wants but insufficient purchasing power. The final outcome is an economic depression or a halting of the processes of industry until consumption again catches up with production, which is forced to await it like a train on a siding. The socialists point to our recurring economic crises as proof of this doctrine of overproduction. They contend that crises are inevitable under modern capitalism and that they are becoming steadily worse. As they will finally become intolerable, capitalism carries within itself the seeds of its own destruction.

e. Class Struggle.—A final principle of Marxian socialism is that of class struggle along economic lines. History records the story of struggles between masters and slaves and between lords and serfs. The industrial revolution created an ever-widening gulf between capitalists or the *bourgeoisie* and workers or the *proletariat*. Scientific socialism does not preach revolution but regards it as inevitable. As the middle class disappears, the conflict of interests between the two extremes in society becomes more intense. The dispossessed proletariat will finally rise in their might. By sheer power of numbers, they will take possession of the instruments of production and operate them collectively. The wage slavery of modern industrialism will then be eliminated by the dictatorship of the proletariat. This will eventually give way to a classless society.

10. Criticism of Marxism.—This general outline of the essential principles of Marxism is too brief to state them clearly or to qualify them sufficiently. One of the weakest planks is the labor theory of value; it has been abandoned by neoclassicists. Even if it be admitted that labor is the ultimate source of all wealth and that capital itself is stored-up labor, the fact remains that roundabout production, or labor aided by capital, is more productive than labor unaided or directly applied. The socialist himself will admit the superior productivity of capitalistic labor, but he demands the collective ownership and operation of capital. Labor as the measure of value is even more difficult to defend than labor as the source of value. Marx assumes homogeneous units of labor, the

number of which would express the value of a coat or a book. This abstraction is impractical. The labor theory of value also minimizes the factor of demand, as influenced by the divergent desires of consumers. Of what value is the product of a large number of labor units, if no one has any desire for it? Marx merely assumes that the good is socially desirable and does not provide for varying degrees of utility.

The Marxian concept of overproduction needs considerable refinement. Although there can be misdirected production or general overproduction in the sense of more goods than can be disposed of at current prices, unqualified general overproduction is impossible in the sense that there are more goods produced than can be consumed. On the other hand, the socialist is probably correct in his contention that greater equality of income would have a stimulating effect on industry by increasing the effective demands of workers. Although this factor is of great importance, an explanation of crises must take other things into account, such as sound currency and stable price levels.

Although a growing concentration in industry may be taking place, it does not follow that the middle class is disappearing or that society is divided into two hostile groups of exploiting *bourgeoisie* and exploited proletariat. Today, the stock of many great corporations is held by thousands of small stockholders. Again, the laboring class is materially better off now than at the time when Karl Marx wrote "Das Kapital." Indeed, it is a debatable matter as to whether it is relatively worse off. In spite of the inadequacy of the wages of a large portion of our laboring population, the long-run tendency of real wages has been upward. Moreover, the growth of labor organization and industrial representation has given the workers greater control of industry and a larger share of its product.

11. Early Schools of Socialism.—Although the socialists are united in their indictment of modern capitalism and in their proposal to substitute collective ownership and operation of the instruments of production for individual enterprise and private property rights, they differ widely among themselves as to other proposals and as to the methods by which the main objective of socialism is to be accomplished. Hence it will be necessary to outline some different schools of socialism.

a. Utopian Socialism.—Socialistic or communistic Utopias are as old as Plato's "Republic." The term "Utopian socialism," however, is generally restricted to a small group of writers who lived about the time of the French Revolution and who were motivated by its ideals of "liberty, equality, and fraternity." They included the French writers, Saint-Simon and Fourier, who influenced the Scottish industrialist, Robert Owen. These visionaries dreamed of an ideal society in which voluntary cooperation would replace competition and coercion. This

movement expressed itself in social experiments and cooperative communities, such as New Harmony in Indiana and Brook Farm in New England.

b. Christian Socialism.—As a reaction against the fantastic and atheistic character of some proposals of early Utopian socialists, Christian socialism emerged in England under the leadership of F. D. Maurice, J. M. Ludlow, and Charles Kingsley, who expressed his convictions in the novel entitled "Alton Locke." Christian socialism stressed the immoral, rather than the uneconomic character of our present industrial system; it preached the gospel of the brotherhood of man and the dignity of labor. The first great socialist was He who enunciated the fundamental commandment that man should love his neighbor as himself. Christian socialism spent itself in humanitarian legislation and in the development of higher ideals in industry. It sought to carry the golden rule into existing economic society, rather than to establish new communities.

12. Later Schools of Socialism. *a. State Socialism.*—State socialism has been regarded as the practical application of scientific or Marxian socialism. It may be dated from the Congress of Eisenach in 1872. State socialism has sometimes been termed "socialism of the chair," because of the advocacy of its doctrines by certain German professors of economics. It magnifies the importance of the state as the fundamental social institution and favors governmental ownership and operation of basic industries. State socialism has expressed itself indirectly in labor legislation and social insurance. After an unsuccessful campaign against this "specter of Europe," Bismarck appropriated and applied some of these "by-products of socialism."

b. Fabian Socialism.—While scientific or Marxian socialism is revolutionary, Fabian socialism is evolutionary. The Fabian Society of London was organized in 1884 by a small group of English intellectuals, including such brilliant writers as H. G. Wells, Bernard Shaw, and Sidney and Beatrice Webb. The name was derived from the Roman general, Fabius Cunctator, or the delayer. The abandonment of his waiting policy in the campaign against Hannibal, the Carthaginian general, brought disaster to the Roman republic. In a similar manner, popular education is regarded by Fabians as a necessary preparation for socialism. It would be unfortunate for it to come to pass before the great mass of citizens were ready for it. Hence a keen critic of modern industrial society characterized the Fabian socialists as those who pray, "Give us Socialism, O Lord, but not in our time."[1]

Fabian socialism teaches that socialism is to come by the gradual process of peaceful change, rather than by bloody revolution. Monopo-

[1] TAWNEY, R. H., "The Acquisitive Society."

lies are becoming more common and powerful. Governmental regulation is becoming more necessary and more effective. It is but a step from governmental regulation to governmental operation or the socialization of industry. Fabian socialists propose the gradual nationalization of all important industries.

c. Guild Socialism.—Guild socialism has been a more recent but more ephemeral cult of socialism. In origin, it was a hybrid of socialistic theory and trade-union machinery. It developed in England as a reaction against the centralized bureaucracy of state socialism.

The chief expositor of guild socialism was G. D. H. Cole. His plea was for self-government in industry, which, he felt, could not be accomplished under state socialism, which necessitated the autocratic control of industry by cabinet ministers or state departments of industry. Thus the state socialism of Germany was regarded as stifling the initiative and creative efforts of the individual worker.

Under guild socialism, foremen were to be elected by the workers. There were to be shop committees and works councils. A national guild congress was to represent the workers of the various industries, but it was to include also professional and clerical groups; thus there would be guilds of physicians and teachers, as well as guilds of carpenters and miners.

13. Syndicalism.—Syndicalism is sometimes incorrectly classified as a radical type of socialism, because most syndicalists accept the socialistic indictment of capitalism and the leading theories of Karl Marx. Syndicalists, however, unlike socialists, despise political action and disdain education; they prefer economic action and advocate violence.

Syndicalism, mentioned previously in Chap. XIV, may be regarded as a revolutionary type of labor organization, which favors industrial unions in preference to trade unions and direct action instead of peaceful negotiation. It seeks the overthrow of capitalism, rather than its improvement by shorter hours, higher wages, and better working conditions.

Syndicalism proposes one big union of all workers and repudiates the present political state. It ignores the legislative activities of numerous socialist groups which seek gradual nationalization of industry. Syndicalists advocate the general strike and employ the weapon of sabotage. They accept the Marxian principle of class struggle and eagerly await the economic revolution of all workers of the world. Indeed, the very elements which Fabian socialists and other revisionists remove from Marxism, such as revolution and force, syndicalists revere. Conversely, the factors which Fabians emphasize, such as education and evolution, syndicalists reject.

The new industrial state of syndicalists is to function through local bodies of workers and their national representatives. Industrial representation is provided, not in addition to political representation, but in lieu of it. Control is to be in the hands of the workers, who are numerically the strongest group. Professional groups may be deprived of representation, and the intellectuals will be denied leadership.

14. Sovietism and Bolshevism.—In the strict sense of the word, sovietism is merely industrial representation, instead of political or territorial representation. If sovietism were fairly applied, occupational groups would be represented in an industrial parliament in proportion to their numerical strength. Such, however, was not the case in Russia. Certain economic groups, such as brain workers and farmers, were either excluded or unfairly represented. The word "bolshevist" merely means "majority." Nevertheless, it happened in Russia that the bolshevists were not the majority, but rather a very active minority which succeeded in gaining control.

The leader of the Russian Revolution, Nikolai Lenin, outlined four different stages in its progress: (1) capitalism, (2) dictatorship of the proletariat by revolution, (3) socialism, and (4) communism. Thus socialism was regarded as a preliminary step toward ultimate communism.

With the progress of the Russian Revolution, the large estates of the former landed aristocracy were divided among the peasants. The complete nationalization of land, however, was found to be impractical. But most basic industries were taken over by the state and managed by the Supreme Economic Council, with its various production departments. There was a Commissariat of Labor which directed the labor supply and which was empowered to conscript workers. The unemployed received the wages of unskilled labor, and a system of public labor exchanges was organized. The state fixed the prices of goods produced and arranged a graduated scale of wages depending on skill and technical knowledge.

Because of the embargo of foreign nations, Russia long found it difficult to obtain capital and other necessaries for the industry and welfare of that nation. Food for the large population of the cities was requisitioned of the agricultural workers, who were paid in worthless Russian currency. Great suffering resulted from the breakdown of existing systems of exchange and transportation. The chaotic condition of Russian industry finally resulted in numerous concessions to capitalism and a partial return of private enterprise.

These difficulties of Russia in a period of transition were often cited to show the impossibility or undesirability of socialism. Later progress in that country led to equally extravagant claims concerning the success of that same movement. The Russian experiment neither proves nor

disproves the success of socialism. A revolutionary period is hardly a fair test of any movement. Social, educational, religious, and political changes were going on simultaneously with economic changes. It is doubtful how well a capitalistic government would have succeeded under the burden placed upon it. Demagogues competed with statesmen for control, and immediate expediency triumphed over ultimate aims.

The open hostility of foreign nations colored the character of the Russian Revolution, just as a century before a similar threat of foreign invasion had changed the character of the French Revolution. But in spite of foreign opposition and domestic disorder, the "temporary experiment" became a permanent condition under the dictatorship of Stalin. The Russian Government finally succeeded in bringing order out of chaos at home and in securing recognition from most foreign governments, finally including that of the United States. The recent involvement of Russia in the Second World War is another trial by fire and a further test of its economic system.

15. Progress of Socialism.—A sketch of the development of socialism is complicated because of the existence of many different types and movements. The strength of socialism has been dissipated by the secession of still more radical elements, such as the communists and the syndicalists. The First World War and the Russian Revolution divided socialists still further. The later development of Communists, on the one hand, and Fascists or Nazis, on the other hand, weakened socialist parties, just as it menaced democratic states.

Indirect accomplishments of socialism are perhaps of more importance than its direct achievements. Thus socialism has often expressed itself as the voice of social unrest against existing economic ills. It has also been the spearhead of aggressive programs in favor of social insurance, progressive income and inheritance taxes, and public ownership of utilities. Any appraisal of the strength of socialism must include not only its allied movements, such as the British Labour Party, but also its indirect influences on social reform.

At the present time, however, socialism is not merely the economic philosophy of a small group of visionary idealists, but the practical political conviction of a large number of statesmen and voters. Before the outbreak of the Second World War, there were several socialist parties in every important nation. Socialists of some type were in control of the governments of many European countries.

16. International Aspects.—Socialism has been an international, rather than a national, movement. Hence it calls upon the workers of all nations to stop capitalistic warfare and to unite in a new war against capitalism itself. The first such international appeal was in the Communist Manifesto, issued in 1848.

The International Workingmen's Association was formed in 1864; it developed into what was known as the First International. It was interrupted by the Franco-Prussian War and disrupted by the schism between the Marxian socialists and the communist anarchists under the leadership of the Russian radical, Bakunin.

The Second International was inaugurated in Paris in 1889 as a direct movement against militarism. The triumph of nationalism during the First World War meant the temporary breakdown of this Second International, which was not revived until after the cessation of hostilities.

The Third, or Communist, International was organized in Moscow, in 1919, as a direct reaction against political and evolutionary socialism. A product of Russian Bolshevism, it seeks to spread to other lands the system of soviets or workingmen's associations. Conservative socialists have refused to affiliate themselves with the Third International but have clung to the Second International.

The growing threat of Fascism and Nazism gradually brought socialists and communists together into the United Front. It finally aligned the communist dictatorship of Russia with the capitalistic democracies of Great Britain and the United States in the Second World War.

17. Criticism of Socialism.—Students of economic problems may agree with the socialists' indictment of capitalism without accepting socialism as the best way out of the situation. Moreover, they may accept the ideals of socialism without believing that socialism would successfully bring them to pass. One must admit the economic and human wastes of the present industrial system. One must admire the attempt to substitute social service for the profits motive. It is necessary, however, to raise constantly the practical question as to whether such a scheme would work.

Although socialism may gradually improve human nature, we live in an acquisitive society. Self-interest is an innate force, and the profits motive is a powerful incentive. It is possible and desirable, however, that our inherent or acquired desire to win social recognition can be expressed in some other way than in the mere accumulation of wealth. It is doubtful, however, if individuals will exert themselves so strenuously for the good of society as for their own individual welfare and that of their immediate group.

Socialists reply that they do not propose to eliminate the material rewards of industry, but merely to reduce them. Moreover, social prestige through economic advancement is as great an incentive as material rewards. Although there might be little difference in wages, many individuals would prefer to be executives, rather than common laborers. Hence they would exert themselves to greater efforts because of this desire for leadership.

Not only is the economic motive toward production under socialism rather weak, but also there are obvious administrative objections. As just indicated, the adjustment of wages and prices would be a delicate task in the absence of competition. Moreover, the determination of the course of production would be equally difficult. It would involve a greater standardization of human wants than exists at present. Although distasteful to those individuals who glory in a variety of economic goods, greater standardization would produce an enormous economy of material and effort. Again, it need not be pushed to the extreme of drab uniformity. Moreover, it is quite likely that collective consumption would be increased at the expense of individual consumption. Public art galleries would supplant private collections, and public parks would replace private estates.

If production were no longer in the hands of individual enterprisers, who seek to make profits by anticipating the wants of consumers and by meeting them satisfactorily, who would be empowered to direct industry and to shape the course of economic production? These powers and duties would probably be those of governmental officers and bureaus. Would not the politician dominate the technical expert and determine vital policies? Has our trial of governmental operation of the railroads and other utilities been sufficiently satisfactory to warrant an extension of this principle?

The elimination of capitalism would remove also its function of selecting leaders. Who would be directors, who, clerks, and who, ditch-diggers? It is doubtful if psychological tests, guidance programs, vocational training, and educational measurements have progressed sufficiently far to develop and to select able leaders in the absence of economic competition.

On the other hand, it is contended that socialism would not eliminate competition but that it would merely change its character. It would substitute political competition, a less desirable type, for economic competition, a more desirable type. Proof of the superiority of economic competition over political competition is found in the assumption that the average individual considers more carefully how he spends his money than he does how he casts his vote. It is further contended that capitalism is more democratic as well as more efficient. Prejudice does not influence one's spending as much as one's voting. The so-called "political competition" of socialism, therefore, would be less democratic, as well as less efficient, than the present economic competition of capitalism. Socialism would substitute the successful politician for the successful businessman as the controller of our economic destinies.[1]

[1] CARVER, T. N., "Essays in Social Justice."

Admitting the ideals of equality of opportunity and acquisition according to productivity, how would these concepts be defined and measured? The absence of market value would make as difficult the scaling of rewards as the absence of competition would make dangerous the selection of leaders. How would productivity be determined, and how would human costs be ascertained? A rough approximation, however, might be better than our present system, in which hours are longest and wages lowest in the most tiresome and disagreeable tasks. Socialism might provide shorter hours in the more fatiguing tasks; it might give higher rewards for those jobs which are least desired but most necessary.

Finally, it is contended that socialism would prevent the payment of interest on capital, because of the elimination of property incomes. As capital is the result of saving, and as saving involves abstinence, the abolition of interest as a form of property income might decrease savings and prevent the further accumulation of capital. The socialist replies that capital, like land, would be publicly owned; saving would be done collectively, rather than individually. The state would produce capital goods as well as consumption goods; it would systematically set aside a replacement fund for industry.

Summary.—Although there are many different kinds of socialism, their common characteristic is the collective ownership and operation of the instruments of production instead of reliance on individual enterprise and competition. Considerable change in the institution of private property is involved, for the inheritance of large estates and the existence of property incomes would be prevented. Socialism is not communism, although certain thinkers have regarded the former as a step toward the latter. Socialism is not anarchism, for the former magnifies the state and the latter seeks to eliminate it.

The most complete statement of the theories of socialism is to be found in "Das Kapital," by Karl Marx. He developed the materialistic interpretation of history, belief in the concentration of industry and the elimination of the middle class, theory of overproduction as the cause of industrial crises, doctrine of class struggle and exploitation of the proletariat, and the labor theory of value. Marxian socialism is known also as scientific socialism. It is deterministic, for it regards the revolution of the workers and the ultimate triumph of communism as inevitable.

Fabian socialism is evolutionary, rather than revolutionary. State socialism seeks governmental operation of industry and proposes the nationalization, rather than the regulation, of basic industries. Guild socialism is a reaction against the bureaucracy of state socialism. It proposes self-government in industry. It is an idealization of trade

unionism and seeks the development of works councils and national guild congresses of the workers.

Syndicalism is more economic than political; it proposes direct action of the workers, rather than legislative progress toward the nationalization of industries.

Socialists criticize the present economic system on numerous grounds. They contend that competition is wasteful. Large-scale production is more efficient than small-scale production; it results in many savings in producing and distributing goods. There seems to be a natural trend in industry toward the final step of monopoly. Therefore, socialists propose the substitution of collective monopolies for private monopolies. The profits motive is selfish and results in numerous economic maladjustments under our present system of individual enterprise. There are human wastes, as well as material wastes, which would be eliminated if production were carried on in the interests of social welfare instead of private profits. Moreover, glaring inequalities in income would be eliminated and a greater equality of opportunity would be fostered.

It must be admitted that the socialists' indictment of the present economic system is sound. It does not follow, however, that socialism would remedy those faults which it so keenly discloses. Nor does it follow that we should scrap the present economic system and build anew, rather than strive merely to eliminate existing maladjustments. The institution of private property has been an important factor in economic progress, and the sordid profits motive has stimulated individual enterprise to greater economic production. Whether the social-service motive would be as effective is doubtful. Again, the new socialist state would be confronted by many administrative problems, such as the wise selection of leaders, the determination of wages and prices, and the direction of the productive forces of industrial society. For these and other reasons, many individuals who accept the ideals of socialism reject the proposals of socialism as a practical solution of our economic problems; they are socialistic, but not socialists. Indeed, many of the greatest results of socialism have been indirect, instead of direct changes, and specific economic reforms, rather than general social reorganization.

Questions for Discussion

1. *a.* What do you understand by the term "socialism"?
   b. What are its essential features?
2. Differentiate between:
   a. Socialism and anarchism;
   b. Socialism and communism;
   c. Socialism and syndicalism.
3. *a.* Outline the chief tenets of Karl Marx.
   b. Explain each briefly.
   c. Criticize each in turn.

4. *a.* On what grounds do socialists indict modern capitalism?

b. Evaluate each of these criticisms.

5. *a.* If one accepts the socialists' indictment of capitalism, must he therefore accept the proposals of socialism? Why, or why not?

b. In what ways might one be socialistic without becoming a socialist? Illustrate.

6. Contrast evolutionary with revolutionary socialism. Illustrate.

7. Outline some leading schools of socialism. Show their similarities and dissimilarities.

8. *a.* Why and how is socialism an international movement?

b. Explain the origins of the three internationals.

9. What administrative difficulties do you see in the way of socialism? How, if at all, can they be solved?

10. Do you believe that the profits motive can or should be eliminated as an economic incentive? Give reasons.

11. Can competition be eliminated? Should it be regulated? How?

12. Distinguish between regulation of industry and operation of industry as governmental functions. Illustrate. Evaluate.

Topics for Investigation

1. Utopian socialism.
2. Scientific socialism.
3. Development of socialism in Germany before the First World War.
4. Socialism and Nazism in Germany after that war.
5. Socialism, nationalism, and internationalism.
6. Syndicalism and socialism in France.
7. Socialism and Fascism in Italy.
8. Socialism and the British Labour Party.
9. Concessions to capitalism in Russia.
10. Socialism in the United States.

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CHAPTER XXII

INDUSTRIAL AND SOCIAL PROGRESS

ELIMINATION OF MALADJUSTMENTS

1. Economic Utopias and Social Unrest.—One of the earliest and most famous of all Utopian schemes was Plato's "Republic," in which he pictured an ideal city-state; it was communistic, cooperative, and based on an inherent division of labor. Toward the close of the Middle Ages, William Langland wrote "Vision of Piers Plowman," an idealization of the England of his day, in which current wrongs were righted. One of the greatest of all Utopias, and the one which has given its name to all similar plans, was the "Utopia" of Sir Thomas More. Appearing in 1516, it indirectly attacked many evils of Tudor England. In More's "Utopia" were no dynastic wars, no leisure class, and no unemployment. The city beautiful contained public schools for children, free hospitals for the sick and injured, and reformatories for criminals. A little later, Francis Bacon published the "New Atlantis," of which his temple of science was a distinguishing feature. In it were statues of scientists, inventors, and discoverers, instead of kings and warriors. Among the more modern Utopias were Bellamy's "Looking Backward" and William Morris's "News from Nowhere."

Each age has dreamed its own Utopia but has failed to realize it. Nevertheless, many ideals of an earlier period become normal conditions of a later period. A chronological survey of Utopias will show both an elevation of ideals and a progression toward former ideals. This continuous rise in standards is as significant as progress toward former standards. Discouragement may be due to the fact that social ideals are advancing as rapidly as social development toward these ideals. Hence progress can be made without its appreciation and despite a sense of frustration.

Social unrest, expressed in the formulation of new ideals into fantastic Utopias, is a sign of progress, rather than an indication of the decadence of the times. Stagnation is the fate of those lands whose old men no longer dream dreams and whose young men are unable to see visions. A progressive society is a critical society and one characterized by advancing ideals of social justice. Social unrest will always exist in a progressive society, but an unprogressive society will suffer from maladjustments of

which it is not conscious. Self-satisfaction is as characteristic of a static society as of a hopeless individual.

No society will ever reach its Utopia; nor will any earthly Utopia endure in a permanent and unchanging fashion. Utopias merely reflect the civilizations which give them birth. On the inside of his shield, the author traces the maladjustments of his own day, which he then hammers into beautiful pictures of the ideal Utopia, which appear on the outside surface.

2. Economic Panaceas and Social Progress.—An economic panacea is something, so it is alleged, which will quickly and painlessly cure all the ills of industrial society. Such a concept is as unscientific as the fountain of youth or the philosopher's stone, which would turn base metals into pure gold. A panacea for all maladjustments of economic society is as imaginary as an economic Utopia. It is as dangerous as the quack doctor's nostrums and cure-alls, which divert sick individuals from competent physicians making careful diagnoses and prescribing specific treatments for particular ailments.

Socialism may present certain desirable ideals and single tax may give us some useful suggestions, but neither socialism nor single tax will bring us to an economic millennium. To advocate any scheme of social reform as a general panacea for all economic evils and as a perfect plan which will endure indefinitely in its original, inspired form is not only unscientific, but it is also unfair to that particular economic creed. Progress is made by the slow elimination of economic maladjustments by specific reforms, rather than by the sudden regeneration of society through some revolutionary gospel.

3. Economic Maladjustments and Social Readjustment.—The process of adjustment may be seen in the forces of nature. Over centuries, the earth's crust was raised and a mountain barrier formed across the course of a river. Slowly but steadily, however, the stream cut a new and lower bed for its passage to the sea. Witness the natural geological adjustment in the physical environment at the Delaware Water Gap or at Niagara Falls.

Economic maladjustments, like rocks in a river bed, are obstacles in the path of society, boulders through which the stream of progress must cut its way. They result from the failure of society to bring itself into harmony promptly and properly to new social forces or to better economic techniques.

Economic maladjustments are explicable in static societies, where the hard rocks of tradition resist the erosion of social change. It is not difficult to understand why, in spite of rich natural resources, the specter of poverty stalks through the land and the death rate rises to enormous proportions. The folkways of ancient China, for illustration, balked for

a long time her social and economic development. In the United States, however, there is less reason for the persistence of maladjustments. America is a new country, alive with modern ideas and less hampered by the binding ties of inertia and tradition. It is rather startling, therefore, to find, in a land of popular education and democratic ideals, a society that fails to adjust its social organization into conformity with its economic progress.

4. Active and Passive Adaptation.—Adjustment may be either active or passive, conscious or unconscious. Geological adjustment, as just illustrated by the river cutting a new stream bed, is passive and unconscious. Again, biological evolution among the lower forms of life is largely passive and unconscious. The force of natural selection preserves favorable variations and eliminates those which are unfavorable. In this way, evolution makes for the survival of the fittest.

Human adaptation is conscious; social adjustment is active and purposive. Inherent intelligence and acquired knowledge make it possible for human beings better to adapt themselves to their environment and thus to avoid extinction. Moreover, man is able, within limits, to change his environment into conformity with his own needs. Rational changes in our economic organization make it gratify more satisfactorily and more completely our expanding economic wants.

Active adaptation involves improved human relationships within a group and among groups, as well as improved material relationships to the physical environment. Hence social objectives and economic ideals go beyond mere survival and more wealth, essential though these are for both individuals and groups.

5. Economic Changes and Social Ideals.—The constant elimination of maladjustments is the aim and the test of a progressive society. There never will be a time, however, when no maladjustments will exist. Society is dynamic and the continuity of change means that the process of adjustment must be continuous. The elimination of a serious maladjustment merely permits attention to be focused on a less serious or a new maladjustment.

Social objectives also change from time to time. Even at any given time there may not be complete agreement concerning them. Ideals are subjective, not objective, and dynamic, not static. Our ideals may be advancing at the same time that society is progressing toward these ideals. This fact often obscures the existence of progress, just as a change in group objective alters the direction of social efforts.

6. Evolution and Progress.—Progress, unlike evolution, implies conscious effort and a purposive process. Although evolution results in the creation of superior species, the process is passive rather than active adaptation. It is only after intelligence has evolved, and human reason

has become a factor in further development, that the term "progress" should be used. The concept "evolution" originated in biology, but the term "progress" is essentially one of social science.

The method of evolution is that of natural selection. Nature is very prodigal, especially with the lower forms of life. There is a bitter struggle for existence and only the fittest survive. No two individuals of a given species are exactly alike, and the force of natural selection determines the survival of that variation which is best suited to its particular environment. The unfit or ill-adapted perish, and the factor of heredity tends to preserve favorable traits which have survival value.

Progress is made by artificial, rather than natural, selection. Human intelligence changes the situation completely by substituting active for passive adaptation. Man is greatly influenced by his environment, but he is able to change it to a considerable degree. For illustration, the glacial epoch developed new species of plants and animals by the process of natural selection. Man, however, was an adaptable animal. He built caves, invented clothing, and discovered fire. He changed his immediate environment and survived. Evolution is the story of passive adaptation or extinction. Progress is the record of active adaptation to avoid extinction.

It was once thought that the white man could not live in the tropics, but modern developments in sanitation, such as those carried out in the Panama Canal Zone, have conquered these formerly impenetrable areas by new weapons of science. The tropics have been made safe for the civilizations of temperate nations. Irrigation projects and mountain tunnels are additional illustrations of active adaption, by which man has altered nature's climate and physiography to his own advantage. By man's conquest of nature we do not mean that he has succeeded in changing natural laws, like Ajax defying the lightning, but rather that he has come to understand the forces of nature and is now able to use them constructively for his own purposes, instead of letting them spend themselves in destruction or without economic advantage to society.

Finally, progress involves ethical ideals and subjective concepts of social welfare, although these have differed sharply from group to group and changed greatly from time to time. Evolution, however, is unmoral; it has no ethical concepts. Superiority means merely fitness to survive under a given set of conditions.

7. Various Interpretations of Progress.—Some cynics deny the existence of progress. They assert that the so-called "progress of the arts" has resulted merely in more disastrous wars. Witness the terrible destruction of life and wealth during the First and Second World Wars among so-called "progressive" and "civilized" nations.

Has the industrial revolution done more than merely increase the wealth of the world? Has it expanded human happiness or raised social ideals. In such vein, John Ruskin questioned the crass materialism of modern industrialism and criticized the lack of vision of contemporary economists. He sought to breathe into political economy the spiritual aromas of beauty and service. Not more goods but better goods, not mere wealth but nobler men, were his ideals of industry. Social, rather than economic, values were stressed in his gospel of wealth. Judged by such standards, the period introduced by the industrial revolution was one of retrogression, instead of one of progress.

Many critics neither affirm nor deny progress. They contend that its existence is impossible to determine, because of the absence of objective tests or commonly accepted and sufficiently permanent standards. Change is obvious, but progress is uncertain.

Concepts of welfare are subjective, ephemeral, and relative. The Greeks of Periclean Athens might have interpreted social welfare as aesthetic culture, the Roman statesmen as expansion of the *pax Romana*, and the medieval ascetic as spiritual devotion. Complete agreement as to what constitutes social welfare is as impossible as universal accord on the nature and sources of individual happiness.

Although common agreement on the criteria of progress is impossible, two concepts emerge out of such a discussion, *viz.*, the social ideal of group survival and the economic ideal of increased prosperity. Professor Carver's definition[1] of a scientific morality is that code of conduct which makes for group longevity. Social survival is surely essential to progress, but it is not proof of progress. Like the oyster in its shell, the static culture of the ancient Chinese endured for centuries with slight change. Again, increased prosperity is part of economic progress, but it is not the whole concept. Although we may restrict our discussion to economic progress, we react from accepting increased material prosperity as our sole test even of economic progress.

8. Methods of Progress.—There are as many interpretations of the methods of progress as there are of its nature. One group of thinkers may be termed *evolutionists*. They look at social progress from the standpoint of natural selection and social adaptation. To them, progress is an unconscious and undirected process in which the survival of the fittest is the determining factor. These evolutionists omit all moral implications from their mechanistic interpretation.

Progress is admitted by other thinkers, but it is viewed merely as the result of a favorable geographical environment, endowed with a temperate climate, sufficient rainfall, and abundant natural resources.

[1] CARVER, T. N., "Essays in Social Justice," chap. 1.

These *geographical determinists* give us an economic interpretation of history.

Still other interpreters of progress stress heredity, rather than environment, as the dominant factor. Certain races, representing superior biological stocks, have made unusual contributions to civilization; they have made possible the general, but uneven, progress of the world through their military or peaceful conquests of backward races. Modern anthropologists, however, challenge this tradition of *racial superiority* and inferiority, although obvious physical differences exist among various peoples.

Within a group, individual differences also are discernible. Individuals possessed of superior physical and mental qualities, which are inherent rather than acquired, are enabled to transmit them. The conscious improvement of the biologic stock of succeeding generations affords some basis for future social progress. Such prophets of progress are known as *eugenists*. They stress not only the importance of the biological factor, but also the possibility of its social control by the process of artificial selection.

Finally, other writers have interpreted progress in terms of *dominant men*. Thus Emerson in "Representative Man" went so far as to assert that an institution is but the lengthened shadow of a single individual. In his "Heroes and Hero Worship" Carlyle also expounded the "great-man theory" of history and progress. Although this position may be carried too far, it cannot be denied that social progress requires effective leadership. Although every individual is influenced by his environment, he has some power to modify it and to rise above it.

9. Factors in Progress.—Heredity and environment are the dual bases of all social explanations. They are the two axes on which every social problem is plotted. They are as omnipresent in sociology as are the forces of supply and demand in economics. Hence our concluding chapter on social and industrial progress brings us back to these fundamental factors.

Both heredity and environment may be physical or social. Our physical heredity is biologic and inherent, but our social heredity is institutional and acquired. Our physical environment is geographic, but our social environment is institutional.

10. Inherent and Acquired Traits.—Although heredity is the biological factor which is responsible for the persistence of racial traits and family characteristics, all individuals, even at birth, show variations. Acquired characteristics are those achieved in the lifetime of the individual. Since they are not inherent in the germ cell, they are not transmissible. It is this biological fact which offers hope to those groups in society which are victims of unfortunate environments. It prevents

society from retrograding and keeps the "submerged tenth" of the slums from giving birth to progressively worse offspring.

It is obvious that the son of a man who lost an arm in an explosion will be born with two arms and that the son of a Greek professor will be forced to acquire his knowledge of the classics by the same laborious study as that followed by his father. Weak eyes may be inherited, as well as a tendency toward literary pursuits, but the latter is more often the result of the social environment of the child than of its physical heredity. Tuberculosis is a bacillus disease which is not hereditary, as are weak lungs which make for a susceptibility to tuberculosis. Insanity also is acquired, although a neurotic tendency may be inherited. Feeble-mindedness, on the contrary, is an inherent trait, which will be passed on from generation to generation, as long as feeble-minded individuals are permitted to propagate.

11. Eugenics in Economic Progress.—Can we consciously and constantly improve the biological stock of the group in a manner similar to that in which we are seeking to improve its physical and social environment? The answer of modern science is in the affirmative. For generations man has been breeding horses, dogs, and cattle, and thus constantly improving their stock. It is only recently, however, that he has thought of himself as a great biological experiment.

Under the leadership of such original thinkers as Sir Francis Galton, the science of eugenics has come into being. The word "eugenics" is derived from the Greek; it means well born.

The eugenic factor in economic progress cannot be denied, although economists generally leave its analysis to sociologists. A progressive society will constantly seek to improve its biological heredity by elimination of degenerate strains therein. The heights to which any group can climb are conditioned by the caliber of the men and women in that group. If we can give the children of tomorrow a good physical heredity, it will be their greatest asset in industrial progress. There now seems to be dawning a newer and higher concept of family life, which places the biologic welfare of children even before the mutual happiness of husband and wife.

12. Positive and Negative Eugenics.—The science of eugenics has come into some disrepute because of the extreme measures which its most ardent enthusiasts advocated. These radical and often ill-considered suggestions, however, should not discredit the entire movement. It must be remembered that there are both positive and negative eugenics. It is idle to dream of a scientific breeding of supermen. Human beings cannot be bred like horses and cattle for some specific characteristics. Individual men and women will continue to fall in love and to marry accordingly. It is even questionable how far eugenic restrictions should

be placed around the marriage of the great majority of our population. For normal people, eugenic reform can be carried on better by a campaign of education than by arbitrary legal restrictions.

For subnormal groups, however, more severe measures are necessary, if degenerate stocks are ever going to be eliminated from human society. Social debtor groups, including defectives, delinquents, and dependents, impede economic progress. In the interest of future society it is imperative that reproduction of those with serious hereditary defects should be prevented. Although other measures have been suggested, it is probably wisest to incarcerate degenerates, feeble-minded, and similar groups in specialized institutions where they will have permanent custodial care. By a gradual weeding out of these degenerate biological strains in society, social progress will be greatly accelerated. The economic costs of institutional care for those having serious antisocial hereditary traits will fall upon the present generation, but it will pay enormous dividends to posterity. In the long run, it will be economical, as well as socially desirable.

13. Education in Economic Progress.—In addition to an improvement in the physical heredity and the social environment of the group, there is a third method of progress, which may be termed the "educational."

From an individual point of view, a liberal education includes the right to the fullest possible development of one's inherent ability. The ideal education is that which permits each individual to develop along the lines of his peculiar abilities and to the limits of his native capacity. From a social point of view, education includes the transmission of acquired knowledge from one generation to another with further and continuous discovery, invention, and improvement.

Intelligence is inherent, but knowledge is acquired. As acquired knowledge is not hereditary, it is imperative that the intellectual accumulations of past ages be passed on to future generations. Civilization is a cumulative process and includes the conserving of past knowledge, as well as the discovery of new information and better methods. This process should go on with accelerated speed, for the discovery of additional knowledge makes easier the process of further discovery. The acquisition of knowledge during prehistoric times was a slow process, but modern scientific investigation has succeeded the former haphazard method of trial and error.

Education involves more than an improved technology. Although civilization rests on a material basis, social welfare consists of other things than mere physical well-being. Man does not live by bread alone, and economic progress must be accompanied by commensurate cultural advances. The finest flowers of past civilizations were their art, literature, and spiritual ideals.

Education involves the wider dissemination of existing knowledge, as well as the discovery of new truth. Economic progress depends upon both methods.

14. Democratization of Education.—Lester F. Ward, the pioneer American sociologist, pleaded for the democratization of knowledge, for he believed human ability to be widespread. Genius is rare, but it crops out in humble and unexpected places. It is not necessarily the product of Norman blood. Indeed, recent investigation has shown that some so-called "blue blood" does not represent the best biological heredity. The importance of heredity is not discounted, but the assumption of biological superiority by privileged races and classes is denied. The absence of democratic school systems in earlier centuries was responsible for many a "mute, inglorious Milton" or a "Cromwell guiltless of his country's blood." Educational equality of opportunity did not then exist.

The schools of tomorrow must educate leaders, as well as efficient workers and loyal citizens. The future progress of the labor movement is conditioned by intelligent and unselfish leadership. Knowledge and service must go hand in hand if the ideals of economic progress and social welfare are to become living realities.

15. Control over the Physical Environment.—Man's first adaptations to the physical environment were more accidental than conscious, although a useful device was imitated and remembered. As compared with the achievements of lower animals, such as nest building of birds, human adaptations are less instinctive and more rational. Finding that a tree which had fallen across a stream provided an excellent method of crossing, primitive man imitated in other places and thus invented his first bridge.

The great inventions of today rest upon the more or less accidental discoveries of prehistoric ages. The modern steam engine would have been impossible without the fortunate discovery of fire some time in the long-forgotten past and its conscious and continuous utilization throughout the centuries of recorded history. The twentieth-century skyscraper is but the latest stage in the evolution of housing, which began centuries ago when a half-naked savage built a rude shelter for protection against cold, rain, and wild animals.

Modern *technology* is the latest chapter in the growth of acquired knowledge. It may be defined as the application of the scientific method to the problems of economic production. Modern technology, as expressed in the inventions of the industrial revolution, was the abundant fruit of the seeds of natural science which had germinated during the Renaissance. Man's control over the forces of nature increased enormously and active adaptation was no longer haphazard. Time and

space were conquered by such inventions as the railroad and the telegraph. The new power machinery produced in a few minutes what thousands of craftsmen had formerly taken months to do.

Truly, the industrial revolution has created a new world, the wonders of which could not have been imagined by the fathers of the American Republic. When Benjamin Franklin flew his famous kite, he little dreamed of the wonderful possibilities of electricity. Today, the electric motor is displacing the steam engine as the chief source of power. One is dazzled when he attempts to project into the future the past accomplishments of applied science. If physical adaptation or control over the forces of nature be the test of economic progress, there is abundant proof both of the fact of economic progress and of its accelerated rate.

16. Control of Social Organization.—Active adaptation can be witnessed in man's relation not only to his physical environment, but also to his social environment. The ability to live harmoniously with one's fellows is as important as the ability to control the physical environment. The development of a better social organization is as vital as the process of mechanical inventions and discoveries. Social progress can be traced in the raising of our ideals and in the improving of our attitudes, just as economic progress can be seen in our technological advances. The latter results in improved production and increased prosperity, the former in more cooperation and better social control.

Social adjustment, however, is often slower than economic adaptation. Obsolete machinery is scrapped and antiquated methods of production disappear before improved processes, whereas obsolete institutions and antiquated attitudes of mind continue to be cherished and fostered. Old ideas may be sound, but they should not be regarded as valid merely because of their antiquity. Physical adaptation has apparently been easier than mental adaptation, as greater advance has been made toward the control of the physical environment than of the social environment.

17. Institutionalization and Social Rigidity.—The atmosphere of custom into which every child is born influences him as much as does his physical environment. Tradition envelops all of us like a cloud, unconsciously determining almost everything that we do, from the language we speak to the dress we wear. Individuality is limited and represents but a small variation from the customs of the group. We take almost everything as we find it, accepting group traditions from baseball to democracy. As the child learns his mother tongue, so he imbibes the customs and moral ideas of his group, regarding them, finally, as his own.

Each group has its own collection of social and moral ideas which it believes to be the best and the truest. Independence of thought is both

relative and rare. Tolerance or sympathy with those of different ideas and ideals has developed only recently and partially. Today, intellectual liberty is still localized within a relatively few democratic countries. Even there, economic reform faces the resistances of group prejudice and social inertia.

18. Breaking the Cake of Custom.—Although the "cake of custom" is hard to break, it may be shattered either by forces within or by forces without, *i.e.*, by internal revolution or by foreign conquest. In the past, the method of conquest has been the more common.

Internal revolutions are sudden and sweeping changes in habits of thought and social attitudes. It is difficult, however, to make fundamental changes in social institutions. Thus, Peter the Great found trouble in westernizing Russia, and the French Revolution resulted in frightful carnage. In more recent times, the Russian Revolution met with active opposition and passive resistance, as it blew to bits the crystallized ideas, cherished traditions, and vested interests of past centuries. Similarly, modern China is a populous nation attempting to adjust itself to new economic conditions; ancient custom is wrestling with modern science for control.

By the bloody path of war and revolution, history has progressed, and modern man has become heir to the culture of other ages and civilizations. Such knowledge should rid him of narrow provincialism and free him from the bonds of superstition and ignorant worship of tradition.

19. Social Control of Industry.—Social control is the influence of group mind over the thoughts and actions of individuals within society. It should be more conscious than imitation, more purposive than tradition, and more rational than institutionalism. The nature, types, and agencies of social control were outlined in Chap. I.

The aim of social control is the development of public opinion which is capable of preserving order and yet maintaining liberty. It seeks to build up a social mind which is rigid enough to withstand the alluring suggestions of the demagogue and yet plastic enough to resist complete institutionalization.

Rational social control can be developed only through a constructive program of education, which creates a critical attitude of mind, but also a conservative feeling of social responsibility. An intelligent public opinion, which soberly discusses civic problems of the day, is the sole hope of democracy.

A deliberative assembly represents the most advanced form of social mind, just as the mob constitutes the very lowest form of association. A society free but incapable of self-control brought about the excesses of the Reign of Terror. On the other hand, a society kept in order by the iron hand of autocracy has its Bastille or its Siberia.

20. Lag of Social Adaptation behind Economic Changes.—The problem before civilization today is whether we can make a social adaptation which will be commensurate with our recent economic progress. If effective social control is not soon developed, modern industrial civilization will be similar to a high-powered automobile racing rapidly through the streets, but with no driver sitting at the wheel to direct its course. The world-wide specialization which the machine process involves necessitates increased cooperation and the highest possible social morality. The meat packer, the milkman, and the locomotive engineer hold in their hands the lives of thousands of other individuals.

The brotherhood of all men, both within a nation and among nations, is no longer a vague ideal; it has now become an economic necessity. Otherwise, modern technology, the machine process, and specialization will have created an industrial monster which will, in turn, destroy its own creators. How to make our social organization improve and our social morality expand with economic progress in the form of increased control over the physical environment is the modern riddle of the sphinx, not to answer which means annihilation.

21. Sin and Society.—Social morality is essential to economic interdependence. Effective and rational forms of social control are necessitated by the complex but impersonal character of modern industrial civilization. Democracy itself is threatened by captains of industry who put profits before human lives and by corrupt labor leaders who put self-interest before social service.

The pirate who sailed the Spanish Main several centuries ago flew openly the skull and cross-bones from his masthead, but the modern villain conceals himself in polite society. Although wearing clean linen and possessing membership in exclusive clubs, he may be guilty of wrecking—financially, if not physically—individuals and large corporations for his own gain.

The modern highwayman takes his toll not from the solitary pedestrian, but from the unknown consumer. The unsocial individual does his plundering invisibly and impersonally, but on a larger scale. For illustration, he adulterates foods, produces shoddy cloth, or sells questionable securities.[1]

This new and even more dangerous type of sinner may not commit crime, but his antisocial acts within the law are more dangerous than individual vices, which injure only one's own self. However, the very interdependence of modern society makes many personal vices, such as drunkenness, a social crime because of their hazards to other people, as well as to the individual himself.

[1] Ross, E. A., "Sin and Society."

22. Our Plan in Retrospect.—The industrial revolution has so transformed our economic life that it has made social adjustment imperative. But many economic maladjustments have continued in spite of this transformation of our industrial environment. Poverty still exists in a land of riches; women and children continue to labor for long hours in insanitary factories. Housing and health conditions do not conform to modern scientific knowledge or to present social ideals. Men are still carelessly at work in dangerous trades, and every year an enormous toll of human lives is taken by needless accidents. Friction between labor and capital is not yet peacefully and democratically adjusted, but flames into strikes and other industrial conflicts. Our survey of many social problems of industry attests the necessity of further, more rapid, and more intelligent social adjustment.

The aim of this book has been to explain such outstanding industrial maladjustments and to indicate some possible readjustments. The student has been free to make his own choice of the various suggested solutions, each of which has its own advantages and disadvantages.

These economic maladjustments have been attacked from many different angles, but among the most important approaches are that of the state through legislation, that of organized labor through collective bargaining, and that of individual employers through various plans of economic betterment. These different avenues of economic adjustment are similar, in that they are evolutionary. On the other hand, the approach of certain critical schools of thought, such as syndicalism and radical socialism, is revolutionary; the overthrow, rather than the improvement, of the present industrial system is sought. These various approaches were represented diagrammatically in Chart 4 of Chap. I.

Adjustment consists of the removal by society of numerous obstacles in the path of progress. Although they may have been suited to an older environment, they are out of harmony with present conditions. Society must, therefore, modify its economic organization and social institutions, if full advantage is to be taken of new inventions and discoveries, of improved techniques and increased knowledge. For example, traditions of hard, continuous toil, of inadequate wages, of bad housing conditions, and of unhealthy working conditions have come down to us from an age when such ideas were the outgrowth of meager physical resources, a lack of scientific knowledge, or the absence of power machinery. But today, a short working day, comfortable standards of living, and good working conditions are attainable.

23. Economic Ideals of a Progressive Society.—The determination of progress implies the existence of certain goals of social welfare. Although there is no generally accepted definition of progress, and although there is no common agreement as to objective tests and measures of social

welfare, it may be possible to suggest certain economic ideals of a progressive society. Among them are prosperity instead of poverty, conservation instead of exploitation, efficiency instead of waste, equality of opportunity instead of either inequality or equality, and cooperation instead of conflict. Each of these economic ideals and its antithesis has been discussed before in detail. All of them are marshaled together here for a final review.

Prosperity has been defined as an abundance of economic goods. The United States, as contrasted to China, is a prosperous nation, just as an individual with a large income is more prosperous than an individual with a small income. A poverty-stricken group of savages may be content in spite of their poverty, if they have known nothing better. Individuals also may be happy if their acquisitive desires have been subordinated to other motives. Saint Francis of Assisi, for illustration, represents the ascetic ideal, rather than the so-called "economic man." Happiness is a subjective rather than an objective term, and the economist relinquishes this problem to the philosopher and the psychologist. Ordinarily, however, a minimum of worldly wealth is necessary to individual happiness and social well-being. Wealth and welfare are not identical, but there does seem to be some connection between them.

National prosperity, like individual prosperity, is not an end in itself, but merely a means to greater group welfare. The social surplus of modern civilizations, as compared with the dire poverty of primitive peoples, is some proof of economic progress. The difference between medieval and modern standards of living is another indication of material progress. Economic progress, however, does not automatically produce cultural and spiritual progress, any more than the growing prosperity of the *nouveau riche* implies an increased refinement. Nevertheless, civilization cannot bear its cultural fruits until a satisfactory adaptation has been made to the economic environment. A social surplus in excess of bare subsistence first must be achieved. Economic prosperity is at least conducive to, if not productive of, a high civilization.

Although there may be great national prosperity, many individuals will not enjoy it if the wealth of the country is so distributed that glaring inequalities of income exist. Individual prosperity does not follow from national prosperity. Dire poverty existed among the wretched masses of wealthy Rome and still persists in prosperous America. Again, economic prosperity must be accompanied by industrial security. Not only increased production, but also stabilized production, is necessary for a wholesome, long-run prosperity.

Conservation is another ideal of economic progress. Just as prosperity means an abundance of economic goods, so conservation implies the wise use of our economic wealth. What thrift is to an individual, conservation

is to a nation. Just as poverty is the lack of prosperity, so exploitation is the opposite of conservation.

The ideal of conservation implies a consideration not only for one's fellow citizens, but also for posterity. The ruthless individualism of one generation may impair the prosperity and welfare of the following generations. Although we have made a fairly good adaptation to our physical environment, we have been very prodigal of the resources of nature. The rapid increase of population within the United States and the depletion of many of our natural resources have made conservation imperative.

Human conservation, however, is even more important than the conservation of our natural resources. Human conservation is best illustrated by a reduction of the death rate, a decrease in ordinary sickness and occupational diseases, and diminution of general and industrial accidents. One proof of progress is the conservation of human life and health, due to the advancement of medical science, the art of surgery, and the practices of public hygiene and sanitation. The average length of life in modern Europe and the United States is several times as great as that of medieval Europe and the backward countries of today. Indeed, mortality statistics show that the average life-expectancy rate has lengthened appreciably within the last few generations. Human conservation involves not only lower mortality and morbidity rates, but also higher eugenic ideals. Its economic aspects include higher standards of living, improved working conditions, and increased leisure time. Excessive hours of employment, dangerous working conditions, and insanitary factories are present menaces to human conservation.

Another economic ideal is that of *efficiency*, which is defined as maximum production with minimum effort. It will be remembered that efficiency and conservation are supplementary, for the former means maximum output and the latter minimum waste. Waste is the antithesis of efficiency. The present prosperity of the United States is due in no small measure to our industrial efficiency. Nevertheless, much more efficient production can still be achieved. The possibilities of scientific management of industry are enormous. But in our great search for increased productivity and in our devoted worship of this new god of efficiency, it is important to remember that producers must not be sacrificed to product. It is essential that industrial efficiency be accompanied by human conservation rather than be advanced at its expense.

Equality of opportunity has been defined as the same chance for all individuals to become unequal, *i.e.*, to develop to the limits of their inherent abilities. A flat economic equality would represent neither social justice nor economic progress. On the other hand, the increase of prosperity which followed the industrial revolution has not been evenly

distributed. The persistence of large fortunes and poverty makes impossible the achievement of equality of opportunity. Hence progressive income and inheritance taxes have been imposed. Moreover, the development of public-school systems and the spread of democratic ideals in education indicate progress in the direction of greater equality of opportunity. Industry itself seems to be feeling the new impetus. It is not unthinkable that the present century may witness a development of industrial democracy similar to the development of political democracy during the past few centuries.

A final ideal of industry is the substitution of *cooperation* for conflict. Conflict of interests can never be eliminated, but these conflicts can be settled through parliamentary and judicial means, instead of economic warfare. Industrial conflict involves great economic waste and high social costs. Economic progress does not necessitate the elimination of competition, but rather the improvement and regulation of competition. It seeks merely the termination of wasteful and predatory forms of competition and the elevation of the general plane of economic competition to stimulate the productive efforts of individuals in socially desirable occupations. By the social control of competition, individual acquisition will be determined by individual productivity, rather than by inheritance, mere cleverness, or fortunate circumstances.

24. From a Deficit Economy of Scarcity to a Surplus Economy of Plenty.—Although much remains to be done, society has already made progressive changes and improved adjustments. Serfdom and slavery have been abolished, and no longer do men toil so arduously and incessantly to produce the bare necessities of life. Primitive peoples lived from hand to mouth in the absence of large accumulated stocks of goods. There was no social surplus in a deficit economy of pain and deprivation.

Since the industrial revolutions, new as well as old, production has so increased that goods formerly regarded as luxuries for the few are now consumed by all as common necessities. Ships from distant parts of the world bring to the poor man's table commodities which princes of old could not have purchased for a king's ransom. The dream of Roger Bacon has come true, for mechanical inventions are now performing tasks which would formerly have been thought impossible. The results of power machinery are increased leisure and wealth. Our potential resources are so abundant and our productivity is so high that exploitation and underconsumption are now unnecessary. Moreover, higher ideals prevail today, and public opinion will no longer sanction what was once regarded as necessary and even justifiable.

25. Historical Perspective.—If he thinks only in terms of his own generation, the cynic can easily find sufficient grounds for pessimism

and for despair about social progress. If he will avail himself of the telescope of history, however, and look backward across the centuries, his faith in economic progress will be restored. Moreover, recorded history is but a brief span in the long story of social development. The prehistoric ages were many times longer than the historic, *e.g.*, since the invention of writing.

Historical perspective[1] can be gained by using the hours of the clock to show the relative shortness of the historic period as contrasted with the prehistoric period, and the brevity of modern history as compared with the length of ancient history. To record man's prehistoric progress on this scale, we are forced to turn the hands of a clock past the first eleven hours and over halfway around the last hour. According to this scale, the dawn of history in the river valleys of the Nile and the Tigris-Euphrates took place at about twenty minutes to twelve. The Christian era began about eight minutes to twelve and the industrial revolutions have taken place within the last minute. This illustration shows the antiquity of man, the slowness of early social evolution, and the accelerated rate of recent development.

Judged by such a scale of progress, Plato is a relatively recent reformer, and the abolition of slavery is almost a contemporary event. The industrial revolution is likewise a novel development, and society has not yet adjusted itself to these industrial changes. The perspective of time is essential to the student of the social problems of industry, if he is to maintain his optimism and idealism. Otherwise, labor problems represent a gloomy industrial pathology. The first steps in economic progress were inconceivably slow, but each new invention or superior adjustment has created increased possibilities for further discoveries and improvements.

Although the past generation has suffered sorely from the recurrent plagues of war, revolution, and depression, the future presents at least the hope of peace, security, and prosperity. Man is the only animal capable of shaping his own destiny. But "the good life" requires not only more knowledge, but also the will, consciously and constantly, to strive for better adjustments. It implies increased industrial progress and improved social control.

Summary.—Utopias express social unrest against current injustices and individual hopes of a better social order. Panaceas are economic patent medicines which profess to cure any and all social ills. Permanent progress, however, requires continuous adjustment to constant change. It necessitates objective analysis of causes and careful formulation of specific measures for the reduction of particular maladjustments.

[1] ROBINSON, J. H., "Mind in the Making."

Progress is purposive change toward higher social ideals and in the direction of increased social welfare. It is active adaptation, in contrast to the passive adaptation by natural selection, which characterized biologic evolution.

Criteria of progress are difficult to formulate because of sharp differences and great changes in social ideals. Interpretations of methods of progress are numerous and conflicting. There are geographical determinists, in contrast to eugenists and those who believe in superior races; there are evolutionists, in contrast to those who contend that progress is due to great men.

Progress requires an improvement of our economic and social organization. It is conditioned also by the betterment of the biological stock of the group. Finally, education for individual and group life is an important method of social progress.

Although the existence of progress in general can be challenged, there has certainly been economic progress in the sense of a superior adaptation to the physical environment. Man's social adjustment, however, has not kept pace with his physical adaptation. Man's ability to live happily and harmoniously with his fellows in effective group life is woefully weak and in marked contrast to his masterful conquest of nature. This is the thesis of culture lag stated in the first chapter. Again, social actualities are far below social potentialities. This is the essence of every social problem; it has been the theme of this entire book.

Maladjustments are those obstacles in the economic and social environment which hinder progress. Improved industrial adjustment has been attempted by the state through legislation, by organized labor through collective bargaining, and by socially minded employers through individual initiative. Industrial readjustment may be sought not only through evolutionary reforms, but also through revolutionary reconstruction of society. Such has been the general plan of this text.

The following economic ideals and their corresponding economic problems have been discussed: prosperity instead of poverty, conservation instead of exploitation, efficiency instead of waste, equality of opportunity instead of equality or inequality, and cooperation instead of conflict.

By a consideration of the antiquity of human society and of the relative recency of such great movements as the industrial revolution, one gains a historical perspective which engenders some optimism for these dark times. Although progress does not travel in a straight line but is broken by periods of stagnation and even of retrogression, there is sound basis for a reasonable faith that some economic progress has been made over the centuries; it is even possible that progress is both cumulative and accelerated.

Questions for Discussion

1. *a.* Explain the terms "social adjustment" and "maladjustment."
   b. Illustrate each.
2. *a.* Differentiate between active and passive adaptation.
   b. Distinguish between progress and change, and between progress and evolution.
3. *a.* Explain what you understand by man's "conquest of nature."
   b. How has it been accomplished?
   c. What are its limitations, if any?
4. *a.* To what extent is improvement of the biological stock of the group an economic problem?
   b. How can and should it be done, if at all?
5. Show the implications and limitations of the educational method of social progress.
6. *a.* Outline various interpretations of progress.
   b. Explain and evaluate each.
7. *a.* Set up several criteria of progress.
   b. Test thereby your own age and culture.
8. Explain the nature and significance of culture lag. Illustrate.
9. Show the relationship, if any, between economic progress and social control.
10. Explain several ideals of a progressive economic society. Show for each the corresponding economic problem.
11. Can economic competition properly be compared to the biological struggle for existence? If so, how? If not, why not?
12. Why and how is social justice a continuous process of legal adaptation to economic change? Illustrate.

Topics for Investigation

1. Plato's "Republic," More's "Utopia," or both.
2. Bellamy's "Looking Backward," or some other modern Utopia, or several of them.
3. Great-men theories of Emerson and Carlyle.

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