UNIVERSAL
LIBRARY

OU_158715

UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 337 Accession No. 12755

Author R96D

Title

This book should be returned on or before the date last marked below.

DISTRIBUTIVE JUSTICE

OTHER BOOKS BY

JOHN A. RYAN

SOCIAL RECONSTRUCTION

SOCIALISM: PROMISE OR MENACE?
(In collaboration with Morris Hillquit)

THE CHURCH AND LABOR
(In collaboration with Joseph Husslein)

THE STATE AND THE CHURCH
(In collaboration with Moorhouse F. X. Millar)

DECLINING LIBERTY AND OTHER PAPERS

DISTRIBUTIVE JUSTICE

The Right and Wrong of Our Present Distribution of Wealth

BY

JOHN A. RYAN, D.D., LL.D.

Professor of Moral Theology and Industrial Ethics at the Catholic University of America; Professor of Political Science at Trinity College; Professor of Ethics at the National Catholic School of Social Service; Director, Department of Social Action, National Catholic Welfare Conference. Author of "A Living Wage," "Social Reconstruction," "Declining Liberty and Other Papers," etc., etc.

New Edition Revised

New York

THE MACMILLAN COMPANY

1927

All rights reserved

Nihil Obstat

ARTHUR J. SCANLAN, S. T. D.,
Censor Librorum.

Imprimatur

PATRICK CARDINAL HAYES
✠ *Archbishop of New York.*

COPYRIGHT, 1916 and 1927,
BY THE MACMILLAN COMPANY.

Set up and electrotyped. Published November, 1916

New and revised edition.
Published May, 1927.

PRINTED IN THE UNITED STATES OF AMERICA
BY THE CORNWALL PRESS

PREFACE

Five of the nine members of the Federal Commission on Industrial Relations united in the declaration that the first cause of industrial unrest is, "unjust distribution of wealth and income." In all probability this judgment is shared by the majority of the American people. Regarding the precise nature and extent of the injustice, however, there is no such preponderance of opinion. Even the makers of ethical and economic treatises fail to give us anything like uniform or definite pronouncements concerning the moral defects of the present distribution. While the Socialists and the Single Taxers are sufficiently positive in their statements, they form only a small portion of the total population, and include only an insignificant fraction of the recognized authorities on either ethics or economics.

The volume in hand represents an attempt to discuss systematically and comprehensively the justice of the processes by which the product of industry is distributed. Inasmuch as the product is actually apportioned among landowners, capitalists, business men and laborers, the moral aspects of the distribution are studied with reference to these four classes. While their rights and obligations form the main subject of the book, the effort is also made to propose reforms that would remove the principal defects of the present system and bring about a larger measure of justice.

Many treatises have been written concerning the morality of one or other element or section of the distributive process; for example, wages, interest, monopoly, the land question; but, so far as the author knows, no attempt has hitherto been made to discuss the moral aspects of the entire

process in all its parts. At least, no such task has been undertaken by any one who believes that the existing economic system is not inherently unjust. That the present essay in this field falls far short of adequate achievement the author fully realizes, but he is sustained by the hope that it will provoke discussion, and move some more competent person to till the same field in a more thorough and fruitful way.

JOHN A. RYAN.

The Catholic University of America,
Washington, D. C., June 14, 1916.

NOTE TO REVISED EDITION

Two kinds of changes appear in the present edition: first, matter which seemed to be either unnecessary or relatively unimportant has been omitted; second, new matter has been introduced in place of statistical or other statements which the lapse of ten years has rendered inadequate. Most of the new matter will be found in the chapters on land, coöperation, monopoly and wages. The method of treatment, the general argument and the principle conclusions remain the same as in the original edition.

CONTENTS

PAGE

PREFACE v

INTRODUCTORY CHAPTER: THE ELEMENTS AND SCOPE OF THE PROBLEM 1

General References 4

SECTION I

THE MORALITY OF PRIVATE LANDOWNERSHIP AND RENT

CHAPTER

I THE LANDOWNER'S SHARE OF THE NATIONAL PRODUCT 7
Economic Rent Always Goes to the Landowner . . 8
Economic Rent and Commercial Rent 9
The Cause of Economic Rent 9

II LANDOWNERSHIP IN HISTORY 12
No Private Ownership in Pre-Agricultural Conditions 14
How the Change Probably Took Place 16
Limited Character of Primitive Common Ownership . 18
Private Ownership General in Historical Times . . 19
Conclusions from History 20

III THE ARGUMENTS AGAINST PRIVATE LANDOWNERSHIP . 22
Arguments by Socialists 22
Henry George's Attack on the Title of First Occupancy 24
His Defense of the Title of Labor 27
The Right of all Men to the Bounty of the Earth . . 32
The Alleged Right of the Community to Land Values . 41

IV PRIVATE OWNERSHIP THE BEST SYSTEM OF LAND TENURE 50
The Socialist Proposals Impracticable 50
Inferiority of the Single Tax System 53

V PRIVATE LANDOWNERSHIP A NATURAL RIGHT 57
Three Principal Kinds of Natural Rights 57
Private Landownership Indirectly Necessary . . . 59
The Doctrine of the Fathers and Theologians . . . 61
The Teaching of Pope Leo XIII 63

CHAPTER		PAGE
VI	LIMITATIONS OF THE LANDOWNER'S RIGHT TO RENT	67
	The Tenant's Right to a Decent Livelihood	68
	The Laborer's Claim Upon the Rent	70
VII	DEFECTS OF THE EXISTING LAND SYSTEM	73
	Landownership and Monopoly	74
	Excessive Gains from Private Landownership	78
	Exclusion from the Land	82
VIII	METHODS OF REFORMING OUR LAND SYSTEM	87
	The Leasing System	88
	Public Ownership of Urban Land	89
	Appropriating Future Increases of Land Value	91
	Some Objections to the Increment Tax	93
	The Morality of the Proposal	99
	The German Increment Taxes	104
	Transferring Other Taxes to Land	105
	The Social Benefits of the Plan	109
	Supertaxes	110
	References on Section I	113

SECTION II

THE MORALITY OF PRIVATE CAPITAL AND INTEREST

IX	THE NATURE AND THE RATE OF INTEREST	117
	Meaning of Capital and Capitalist	117
	Meaning of Interest	118
	The Rate of Interest	121
X	THE ALLEGED RIGHT OF LABOR TO THE ENTIRE PRODUCT OF INDUSTRY	125
	The Labor Theory of Value	126
	The Right of Productivity	128
XI	THE SOCIALIST SCHEME OF INDUSTRY	132
	Socialist Inconsistency	132
	Expropriating the Capitalists	134
	Inefficient Leadership	138
	Inefficient Labor	141
	Attempted Replies to Objections	141
	Restricting Individual Liberty	146
XII	ALLEGED INTRINSIC JUSTIFICATIONS OF INTEREST	150
	Attitude of the Church Toward Interest on Loans	151
	Interest on Productive Capital	154
	The Claims of Productivity	156
	The Claims of Service	159
	The Claims of Abstinence	161
XIII	SOCIAL AND PRESUMPTIVE JUSTIFICATIONS OF INTEREST	165
	Limitations of the Sacrifice Principle	165

CHAPTER PAGE

The Value of Capital in a No-Interest Régime . . . 166
Whether Interest Is Necessary 168
The State Is Justified in Permitting Interest . . . 171
Civil Authorization Not Sufficient for the Individual . 173
How the Interest-Taker is Justified 176

XIV Coöperation a Partial Solvent of Capitalism . . 181
Reducing the Rate of Interest 182
Need for a Wider Distribution of Capital 183
The Essence of Cooperative Enterprise 185
Coöperative Credit Societies 186
Cooperative Agricultural Societies 188
Coöperative Mercantile Societies 190
Coöperation in Production 193
Advantages and Prospects of Coöperation 199
References on Section II 204

SECTION III

THE MORAL ASPECT OF PROFITS

XV The Nature of Profits 207
The Functions and Rewards of the Business Man . . 207
The Amount of Profits 209
Profits in the Joint Stock Company 210

XVI The Principal Canons of Distributive Justice . . 212
The Canon of Equality 212
The Canon of Needs 213
The Canon of Efforts and Sacrifice 215
The Canon of Productivity 216
The Canon of Scarcity 218
The Canon of Human Welfare 220

XVII Just Profits in Conditions of Competition 223
The Question of Indefinitely Large Profits 224
The Question of Minimum Profits 227
The Question of Superfluous Business Men 229

XVIII The Moral Aspect of Monopoly 231
Surplus and Excessive Profits 232
The Question of Monopolistic Efficiency 234
Discriminative Underselling 236
Exclusive-Sales Contracts 239
Discriminative Transportation Arrangements . . . 241
Natural Monopolies 242
Methods of Preventing Monopolistic Injustice . . . 243
After Eleven Years 245

XIX The Moral Aspect of Stock Watering 248
Injurious Effects 249
The Moral Wrong 253

CHAPTER		PAGE
	The "Innocent" Investor	254
	Magnitude of Overcapitalization	257
XX	The Legal Limitation of Fortunes	259
	The Method of Direct Limitation	260
	Limitation Through Progressive Taxation	263
XXI	The Duty of Distributing Superfluous Wealth	268
	The Question of Distributing Some	268
	The Question of Distributing All	273
	Some Objections	275
	A False Conception of Welfare	277
	The True Conception of Welfare	279
	References on Section III	281

SECTION IV

THE MORAL ASPECT OF WAGES

XXII	Some Unacceptable Theories of Wage Justice	285
	I The Prevailing-Rate Theory	285
	Not in Harmony with Justice	286
	II Exchange-Equivalence Theories	287
	The Rule of Equal Gains	288
	The Rule of Free Contract	290
	The Rule of Market Value	292
	The Medieval Theory	294
	A Modern Variation of the Medieval Theory	298
	III Productivity Theories	301
	Labor's Right to the Whole Product	302
	Clark's Theory of Specific Productivity	308
	Carver's Modified Version of Productivity	310
XXIII	The Minimum of Justice; A Living Wage	315
	The Principle of Needs	315
	Three Fundamental Principles	317
	The Right to a Decent Livelihood	319
	The Laborer's Right to a Living Wage	321
	When the Employer is Unable to Pay a Living Wage	323
	An Objection and Some Difficulties	327
	The Family Living Wage	330
	Family Allowances	333
	Other Arguments in Favor of a Living Wage	335
XXIV	The Problem of Complete Wage Justice	339
	Comparative Claims of Different Labor Groups	339
	Wages Versus Profits	345
	Wages Versus Interest	347
	Wages Versus Prices	349
	Concluding Remarks	354
XXV	Methods of Increasing Wages	357
	The Legal Minimum Wage	357

CHAPTER PAGE

The Constitutional Aspect 362
The Political Aspect 371
The Economic Aspect 372
Labor Unions 374
Organization Versus Legislation 378
Social Insurance 380
Toward Industrial Democracy 382
References on Section IV 390

XXVI SUMMARY AND CONCLUSION 391
The Landowner and Rent 391
The Capitalist and Interest 392
The Business Man and Profits 393
The Laborer and Wages 394
Concluding Observations 396

INDEX 399

DISTRIBUTIVE JUSTICE

DISTRIBUTIVE JUSTICE

INTRODUCTORY CHAPTER

THE ELEMENTS AND SCOPE OF THE PROBLEM

DISTRIBUTIVE justice is primarily a problem of incomes rather than of possessions. It is not immediately concerned with John Brown's railway stock, John White's house, or John Smith's automobile. It deals with the morality of such possessions only indirectly and under one aspect; that is, in so far as they have been acquired through income. Moreover, it deals only with those incomes that are derived from participation in the process of production. For example; it considers the laborer's wages, but not the subsidies that he may receive through charity or friendship. Its province is not the distribution of all the goods of the country among all the people of the country, but only the distribution of the products of industry among the classes that have taken part in making these products.

These classes are four, designated as landowners, capitalists, undertakers or business men, and laborers or wage earners. The individual member of each class is an *agent* of production, while the instrument or energy that he owns and contributes is a *factor* of production. Thus, the landowner is an agent of production because he contributes to the productive process the factor known as land, and the capitalist is an agent of production because he contributes the factor known as capital, while the business man and the laborer are agents not only in the sense that they contribute factors to the process, but in the very special sense

that their contributions involve the continuous expenditure of human energy. Now the product of industry is distributed among these four classes precisely because they are agents of production; that is because they own and put at the disposal of industry the indispensable factors of production. We say that the agents of production "put the factors of production at the disposal of industry" rather than "exercise or operate the factors," because neither the landowner nor the capitalist, as such, expends continuous energy in the productive process. All that is necessary to enforce a claim upon the product is to contribute an instrument without which production cannot be carried on.

The product distributed in any country during a single year is variously described by economists as the national product, the national income, the national dividend. It consists not merely of material goods, such as houses, food, clothing and automobiles, but also of those non-material goods known as services. Such are the tasks performed by the domestic servant, the barber, the chauffeur, the public official, the physician, the teacher, or any other personal service "that is valued, as material commodities are valued, according to their selling prices." Even the services of the clergyman are included in the national income or product, since they are paid for and form a part of the annual supply of good things produced and distributed within the country. In the language of the economist, anything that satisfies a human want is a utility, and forms part of the national wealth; hence there can be no sufficient reason for excluding from the national income goods which minister to spiritual or intellectual wants. The services of the clergyman, the actor, the author, the painter, and the physician are quite as much a part of the utilities of life as the services of the cook, the chambermaid, or the barber; and all are as clearly utilities as bread, hats, houses, or any other material thing. In a general way, therefore, we say that the national product which is available for distribution among the different productive classes comprises all the

utilities, material and non-material, that are produced through human agents and satisfy human desires.

In the great majority of instances the product is not distributed in kind. The wheat produced on a given farm is not directly apportioned among the farmers, laborers and landowners that have coöperated in its production; nor are the shoes turned out by a given factory divided among the coöperating laborers and capitalists; and it is obvious that personal services cannot be returned to the persons that have rendered them. Cases of partial direct distribution do, indeed, occur; as when the tenant takes two-thirds and the landowner one-third of the crop raised by the former on land belonging to the latter; or when the miller receives his compensation in a part of the flour that he grinds. To-day, however, such instances are relatively insignificant. By far the greater part of the material product is sold by the undertaker or business man, and the price is then divided between himself and the other agents of production. All personal services are sold, and the price is obtained by the performers thereof. The farmer sells his wheat, the miller his flour, and the barber his services. With the money received for his part in production each productive agent obtains possession of such kinds and amounts of the national product as his desires dictate and his income will procure. Hence the distribution of the product is effected through the conversion of producers' claims into money, and the exchange of the latter for specific quantities and qualities of the product.

While the national product as a whole is divided among the four productive classes, not every portion of it is distributed among actually distinct representatives of these classes. When more than one factor of production is owned by the same person, the product will obviously not go to four different classes of persons. For example; the crop raised by a man on his own unmortgaged land, with his own instruments, and without any hired assistance; and the products of the small shopkeeper, tailor, and barber

who are similarly self-sufficient and independent,—are in each case obtained by one person, and do not undergo any actual distribution. Even in these instances, however, there occurs what may be called *virtual* distribution, inasmuch as the single agent owns more than one factor, and performs more than one productive function. And the problem of distributive justice in such cases is to determine whether all these productive functions are properly rewarded through the total amount which the individual has received. Where the factors are owned by distinct groups of persons, the problem is to determine whether each group is properly remunerated for the function that it has performed.

GENERAL REFERENCES

TAUSSIG: Principles of Economics. Macmillan; 1911.
DEVAS: Political Economy. Longmans; 1901.
HOBSON: The Industrial System. Longmans; 1909.
CLARK: The Distribution of Wealth. Macmillan; 1899.
CARVER: Essays in Social Justice. Harvard University Press; 1915.
ELY: Property and Contract in Their Relations to the Distribution of Wealth. Macmillan; 1914.
PESCH: Lehrbuch der Nationaloekonomie. Freiburg; 1905-1913.
ANTOINE: Cours d' Économie Sociale. Paris; 1899.
VERMEERSCH: Quaestiones de Justitia. Bruges; 1901.
KING: The Wealth and Income of the People of the United States. Macmillan; 1915.
COMMISSION ON INDUSTRIAL RELATIONS: Final Report; 1915.
GARRIGUET: Régime du Travail. Paris; 1909.
HOBHOUSE: The Elements of Social Justice. New York; 1922.
MITCHELL, KING, *et al.*: Income in the United States. New York; 1921.
LEVEN: Income in the Various States. New York; 1925.
LUGAN: L'Enseignement Social de Jésus. Paris; 1924.

SECTION I

THE MORALITY OF PRIVATE LAND-OWNERSHIP AND RENT

CHAPTER I

THE LANDOWNER'S SHARE OF THE NATIONAL PRODUCT

THAT part of the national product which represents land, and is attributed specifically to land, goes to the landowner. It is called economic rent, or simply rent. We say that rent "is attributed specifically to land," rather than "is produced specifically by land," because we do not know what proportion of the joint product of the different factors of production exactly reflects the productive contribution of any factor. Economic rent represents the productivity of land in so far as it indicates what men are willing to pay for land-use in the productive process. In any particular case rent comes into existence because the land makes a commercially valuable contribution to the product; and it goes to the landowner because this is one of the powers or rights included in the institution of private ownership. And the landowner's share is received by him precisely in his capacity as landowner, and not because he may happen to be laborer, farmer, or proprietor of agricultural capital.

It is perhaps superfluous to observe that not all land produces rent. While almost all land is useful and productive, at least potentially, there is in almost every locality some land which in present conditions does not warrant men in paying a price for its use. If the crop raised on very sandy soil is so small as to cover merely the outlay for labor and capital, men will not pay rent for the use of that soil. Yet the land has contributed something to the product. Herein we have another indication that rent is not an adequate measure of land productivity. It represents land value.

Economic Rent Always Goes to the Landowner

All land that is in use and for the use of which men are willing to pay a price yields rent, whether it is used by a tenant or by the owner. In the latter case the owner may not call the rent that he receives by that name; he may not distinguish between it and the other portions of the product that he gets from the land; he may call the entire product profits, or wages. Nevertheless the rent exists as a surplus over that part of the product that he can regard as the proper return for his labor, and for the use of his capital-instruments, such as, horses, buildings, and machinery. If a farmer employs the same amount and kind of labor and capital in the cultivation of two pieces of land, one of which he owns, the other being hired from some one else; if his net product is the same in both cases, say 1,000 dollars; and if he must pay 200 dollars to the owner of the hired land, then, 200 of the 1,000 dollars that he receives from his own land is likewise to be attributed specifically to his land rather than to his capital or labor. It is rent. While the whole product is due in some degree to the productive power of land, 200 dollars of it represents land value in the process of production, and goes to him solely in his capacity as landowner. The rent that arises on land used for building sites is of the same general character, and goes likewise to the owner of the land. The owner of the site upon which a factory is located may hire it to another for a certain sum annually, or he may operate the factory himself. In either case he receives rent, the amount that the land itself is worth for use, independently of the return that he obtains for his expenditure of capital and labor. Even when a person uses his land as a site for a dwelling which he himself occupies, the land still brings him economic rent, since it affords him something for which he would be obliged to pay if his house were located on land of the same kind owned by some one else.

Economic Rent and Commercial Rent

It will be observed that the landowner's share of the product, or economic rent, is not identical with commercial rent. The latter is a payment for land and capital, or land and improvements combined. When a man pays nine hundred dollars for the use of a house and lot for a year, this sum contains two elements, economic rent for the lot and interest on the money invested in the house. Assuming that the house is worth ten thousand dollars, and that the usual return on such investments is eight per cent, we see that eight hundred dollars goes to the owner as interest on his capital, and only one hundred dollars as rent for his land. Similarly the price paid by a tenant for the use of an improved farm is partly interest on the value of the improvements, and partly economic rent. In both cases the owner may reckon the land as so much capital value, and the economic rent as interest thereon, just as the commercial rent for the buildings and other improvements is interest on their capital value; but the economist distinguishes between them because he knows that they are determined by different forces, and that the distinction is of importance. He knows, for example, that the supply of land is fixed, while the supply of capital is capable of indefinite increase. In many situations, therefore, rent increases, but interest remains stationary or declines. Sometimes, though more rarely, the reverse occurs. As we shall see later, this and some other specific characteristics of land and rent have important moral aspects; consequently the moralist cannot afford to confuse rent with interest.

The Cause of Economic Rent

The cause of economic rent is the fact that land is limited relatively to the demand for it. If land were as plentiful as air mere ownership of some portion of it would not enable the owner to collect rent. As landowner he would

receive no income. If he cultivated his land himself the return therefrom would not exceed normal compensation for his labor, and normal interest on his capital. Since no one would be compelled to pay for the use of land, competition among the different cultivators would keep the price of their product so low that it would merely reimburse them for their expenditures of capital and labor. In similar conditions no rent would arise on building sites. The cause of the *amount* of rent may also be stated in terms of scarcity. At any given time and place, the rent of a piece of land will be determined by the supply of that kind of land relatively to the demand for it. However, the demand itself will be regulated by the fertility or by the location of the land in question. Two pieces of agricultural land equally distant from a city, but of varying fertility, will yield different rents because of this difference in natural productiveness. Two pieces of ground of equal natural adaptability for building sites, but at unequal distances from the center of a city, will produce different rents on account of their difference of location. The absolute scarcity of land is, of course, fixed by nature; its relative scarcity is the result of human activities and desires.

The definition of rent adopted in these pages, "what men are willing to pay for the use of land," or, "what land is worth for use," is simpler and more concrete, though possibly less scientific, than those ordinarily found in manuals of economics, namely: "that portion of the product that remains after all the usual expenditures for labor, capital, and directive ability have been deducted;" or, "the surplus which any piece of land yields over the poorest land devoted to the same use, when the return from the latter is only sufficient to cover the usual expenses of production."

The statement that all rent goes to the landowner supposes that, in the case of hired land, the tenant pays the full amount that would result from competitive bidding. Evidently this was not the case under the feudal system, when rents were fixed by custom and remained stationary

for centuries. Even to-day, competition is not perfect, and men often obtain the use of land for less than they or others might have been willing to give. But the statement in question does describe what tends to happen in a system of competitive rents.

CHAPTER II

LANDOWNERSHIP IN HISTORY

BETWEEN forty and fifty years ago the majority of economic historians seemed to accept the theory that land was originally owned in common.[1] They held that in the beginning the community, usually a village community, was the landowner; that the community either cultivated the land as a corporation, and distributed the product among the individual members, or periodically divided the land among the social units and permitted the latter to cultivate their allotments separately. The second of these forms of tenure was the more general. The primitive time to which the theory referred was not the period when men got their living by hunting and fishing, or by rearing herds, but the agricultural stage of economic development, when life had become settled. Of the arguments upon which the theory was based, some consisted of ambiguous statements by ancient writers, such as Plato, Cæsar, and Tacitus, and others were merely inferences drawn from the existence of certain agrarian institutions: family ownership of land; common pasturelands and woodlands; periodical distribution of land among the cultivators, as in the German Mark, the Russian Mir, the Slavonic Zadruga, and the Javanese Dessa. All these practices have been interpreted as "survivals" of primitive common ownership. Only on this hypothesis, it is argued, can they be satisfactorily explained.

[1] The most notable exponents of this view were: Von Maurer, "Einleitung zur Geschichte der Mark," 1854; Viollet, "Bibliothèque de l' école des chartres," 1872; Maine, "Village Communities in the East and the West," 1872; and De Laveleye, "De la propriété et ses formes primitives," 1874, of which an English translation appeared in 1878 under the title, "Primitive Property."

More recent writers have subjected the various arguments for this theory to a searching criticism.[1] To-day the great majority of scholars would undoubtedly accept the conclusion of Fustel de Coulanges, that the arguments and evidence are not sufficient to prove that in the earliest stages of agricultural life land was held in common; and a majority would probably take the more positive ground that common ownership, in the sense of communal cultivation and distribution, never existed for any considerable length of time among any agricultural people. The present authoritative opinion was thus summarized by Professor Ashley in an address before the International Congress of Historical Studies, London, April, 1913:

"From the earliest historical times, in Gaul and Germany, very much land was owned individually, and wealth on one side and slavery on the other were always very important factors in the situation.

"Even in Germany, communal ownership of land was never a fundamental or generally pervasive social institution; there was something very much like large private estates, worked by dependents and slaves, from the very earliest days of Teutonic settlement.

"As to England, it is highly probable that we shall not find anything that can fairly be called a general communal system of landowning, combined with a substantial equality among the majority of the people, under conditions of settled agriculture. To find it in any sense we shall have to go back to an earlier and 'tribal' condition, if, indeed, we shall find it there!"[2]

[1] Chief among these writers are: Fustel de Coulanges in an article in "Revue des Questions Historiques," April, 1889; translated by Margaret Ashley, and published, with an introductory chapter by W. I. Ashley, under the title, "The Origin of Property in Land," 1891; G. Von Below, "Beilage zur Allgemeine Zeitung: Das kurze Leben einer vielgenannten Theorie," 1903; F. Seebohm, "The Village Community," 1883. Cf. Whittaker, "Ownership, Tenure, and Taxation of Land," 1914, ch. ii; Cathrein, "Das Privatgrundeigenthum und seine Gegner," 1909; and Pesch, "Lehrbuch der Nationaloekonomie," I, 183-188.

[2] Quoted in Whittaker, op. cit., pp. 27, 28.

No Private Ownership in Pre-Agricultural Conditions

Whenever and wherever men got their living by hunting and fishing there was no inducement to own land privately, except possibly those portions upon which they built their huts or houses. "Until they become more or less an agricultural people they are usually hunters or fishermen or both, and possibly also to a limited extent keepers of sheep and cattle. Population is then sparse, unoccupied territory is plentiful, and questions of the ownership of particular tracts of land do not concern them." [1] In any region occupied by a group or tribe, all portions of the land and the water were about equally productive of game and fish; the amount obtainable by any individual had no relation to labor on any particular piece of soil; and it was much easier for each to range over the whole region in common with his fellows than to mark off a definite section upon which he would not permit others to come, but beyond which he himself would not be permitted to go. In such conditions private ownership of land would have been folly. Tribal or group ownership was, however, in vogue, especially among those groups that were in control of the better grounds or streams. Even this form of proprietorship was comparatively unstable, since the people were to a considerable degree nomadic, and were willing to abandon present possessions whenever there was a prospect of obtaining better ones elsewhere. Among men who got their living by rearing herds, the inducement to hold land in exclusive private control would be somewhat stronger. The better grazing tracts would be coveted by many different persons, especially in the more populous communities. And there would always be the possibility of confusion among the different herds, and contention among their owners. In such circumstances the advantages of exclusive control would sometimes outweigh the benefits of common use and ownership. In the thirteenth chapter of Genesis

[1] Idem, p. 29.

we are told that, owing to strife between the herdsmen of Abram and Lot, the brothers separated, and agreed to become the exclusive possessors of different territories. Nevertheless, it is probable that tribal ownership was the prevailing form of land tenure so long as people remained mainly in pastoral conditions.

It is likewise probable that the same system continued in many cases for some time after men began to cultivate the soil. At least, this would seem to have been the natural arrangement while land was plentiful, and the methods of cultivation crude and soil-exhausting. It would be more profitable to take up new lands than to continue upon the old. Within historical times this system prevailed among the ancient Germans, some of the tribes of New Zealand, and some of the tribes of Western Africa. Where land was not so plentiful it was sometimes redistributed among individuals or heads of families, as often as a death occurred or a new member arrived in the community. Some of the tribes and peoples who observed this practice were the ancient Irish, the aborigines of Peru, Mexico, and parts of what is now the United States, and Australia, and some of the tribes of Africa, India, and Malaysia.[1] Whether the most primitive agricultural systems of every people were of this nature we have, of course, no means of knowing, but the supposition is antecedently probable; for agriculture must have begun very gradually, and been for some time practiced in connection with the more primitive methods of obtaining a livelihood. As the land had been held for the most part in common during the hunting and fishing stage and during the pastoral stage, the same arrangement would probably continue until the people found it necessary to cultivate the same tracts of land year after year, and conceived the desire to retain their holdings in stable possession and to transmit them to their children. Moreover, so long as the members of the clan remained

[1] Cf. P. W. Joyce, "A Social History of Ancient Ireland," 1903; and Letourneau, "Property: Its Origin and Development," 1896.

strongly conscious of their kinship, and realized the necessity of acting as a unit against their enemies, there would be a strong incentive to clan ownership of the land, and clan allotment of it among the individual members. In other words, the clan would, in these circumstances, have the same motives for common ownership that exist to-day in the family.

The oldest historical peoples, the Israelites, Egyptians, Assyrians, Babylonians, and Chinese, had private ownership of land at the beginning of their recorded history. Most of them, however, had been cultivating land for a considerable length of time, and had acquired a considerable degree of civilization, before the earliest period of their existence of which we have any knowledge. It is quite possible that those among them that had passed through the hunting and fishing or the pastoral stage of existence, had practiced tribal or common ownership during the earlier portion of their agricultural life.

How the Change Probably Took Place

The change from tribal to private landownership could have occurred in a great variety of ways. For example, the chief, patriarch, or king might gradually have obtained greater authority in making the allotments of land among the members of the tribe or group, and thus acquired a degree of control over the land which in time became practical ownership; he might have seized the holdings of deceased persons, or of those who were unable to pay him the tax or tribute that he demanded, or of those who were for any reason obnoxious to him. Again, the taxes paid to the chief man in a community for his services as ruler might have come in time to be regarded as a payment for the use of the land, and therefore as an acknowledgment that the chief was also the landlord. Even in the Middle Ages the rents received by the feudal lords were in great measure a return for social and political services, just as are the taxes received to-day from private landowners by

the State. In primitive times, as well as later on, the chief would naturally do his best to convert this institution of tax paying or tribute paying into rent paying, and to add the position of landowner to his other prerogatives. After all, the transition from tribal ownership, with private cultivation and private receipt of the produce of individual allotments, to overlordship and landlordism, would not have been greater than that which actually took place in England between the fifteenth and the nineteenth centuries, when the lords became absolute owners of land that they had previously held with their tenants in a sort of divided or dual ownership. In a word, tribal ownership could have been displaced by landlordism through the same methods that have been used everywhere by the powerful, the ambitious, and the greedy against the weak, the indifferent, and the upright. Nor must we forget the influence of conquest. Most of the countries that appear in historical times with a system of private ownership had at some previous period been subjugated by an alien people. In many of these the conquerors undoubtedly introduced a considerable degree of individual ownership, the more powerful among them becoming landlords, while their weaker companions and the mass of the conquered population were established in a condition of tenancy.

Where a somewhat widely diffused private ownership succeeded the primitive system, it was probably due to the free action of the cultivators, as soon as they came to realize the inconveniences of ownership in common. "Any enclosed land round their permanent dwellings, and any land outside the settlement, which was cleared, reclaimed, and cultivated, or occupied with cattle by individuals or families, was recognized as their personal property. Only those who were industrious, enterprising and courageous enough would clear, occupy, retain, cultivate, and defend waste land. They would become personal owners of cattle, and would gradually acquire wealth which would enable them to employ others and still further improve their posi-

tion. As their power increased, and as population grew, the bravest, wealthiest and most capable fighting men among them would become chiefs or a species of nobles, and the force of circumstances, often no doubt aided by force and fraud, would eventually make them the landowners of the greater part of the district, with the more or less willing acquiescence of the community among whom they lived, and to whom they extended their protection." [1]

Limited Character of Primitive Common Ownership.

A great deal of the opposition to the theory of primitive common ownership of agricultural land, seems to be based upon an exaggerated conception of the scope of that institution. The average man who thinks or speaks of ownership to-day has in mind the Roman concept and practice of private property. This includes the unrestricted right of disposal; that is, the power to hold permanently, to transfer or transmit, to use or to abuse or not to use at all, to retain the product of the owner's use, to rent the property to any person and for any period that the owner chooses, and to obtain in return a price called rent. Any man who takes the theory of primitive common ownership to imply that the community or tribe exercised all these powers over its land, will have no difficulty in proving that the evidence is overwhelmingly against any such theory. Even among those people that are certainly known to have practiced so-called common ownership of land, there are very few instances of communal cultivation, or communal distribution of the product. Yet these are included in the Roman concept of ownership. The usual method seems to have been periodical allotment by the community of the land among individuals, individual cultivation of the allotted tracts, and individual ownership of the product. Moreover, there was always a chief or patriarch who exercised considerable authority in the distribution of the land, frequently collected a rent or tax from the cultivators, and

[1] Whittaker, op. cit., pp. 30, 31.

almost invariably exercised something like private ownership of a portion of the land for his direct and special benefit. Sometimes other men of importance in the community possessed land which was not subject to the communal allotment. Primitive ownership of land in common was, therefore, very far from vesting in the community all the powers that inhere in the private proprietor of land according to the Roman law and usage.

Private Ownership General in Historical Times

So much for land tenure in prehistoric times. During the historical period of the existence of the race, almost all civilized peoples have practiced some form of private ownership in the matter of their arable lands. While differing considerably at various times and places, it has always excluded communal allotment of land and communal distribution of the product, and has always included private receipt of the product by the owner-user, or private receipt of rent when the owner transferred the use to some one else. But it did not always include the right to determine who should be the user. In the later centuries of the feudal system, for example, the lord could not always expel the tenants from the land, nor prevent them from transmitting the use of it to their children. Moreover, the rent that he received was customary and fixed, not competitive and arbitrary, and it was looked upon in great measure as a return to the lord for social, military, and political services, as well as a payment for the use of land. This system was private ownership, indeed, but if we apply the Roman notion of ownership we shall find it difficult to decide whether the tenant or the lord should more properly be called the owner. At any rate, the right of ownership possessed by the lord was greatly limited by restrictions which favored the masses of the cultivators. In every community there were common woodlands and pasturelands for the free use of all the inhabitants. Among other restrictions of private ownership and control in favor of

the principle of equal access to the land by all persons, we may mention the division of the English villein's holding into several portions, intermingled with those of his neighbors so that each would have about the same amount of good land; and the ancient Hebrew law whereby alienated land was returned to the descendants of its original owners every fifty years.[1]

Reckoning the feudal lord, and all other overlords who had the same control over land, as private proprietors, we may say that in historical times the arable land of every country has been owned by a minority of the population. Since the downfall of feudalism the tendency in most regions of the Western world has been toward an increase in the number of owners, and a decrease in the number of great estates. This tendency has been especially marked during the last one hundred years. It will, however, need to continue for a very long time, or else to increase its pace very rapidly, before landownership will be diffused in anything like the measure that is necessary if its benefits are to be shared by all the people. Even in the United States, where the distribution is perhaps more general than in any other country, only 37.4 per cent of the families owned, in 1920, the homes in which they lived. In the rural districts the per cent of home-owning families was only 60.9.

Conclusions from History

What conclusions does history warrant concerning the social and moral value of private landownership? Here we are on very uncertain ground; for different inferences may be drawn from the same group of facts if a different section of them be selected for emphasis. Sir Henry Maine and Henry George both accepted the theory of primitive agrarian communism; but the former saw in this assumed fact a proof that common ownership was suited only to the needs of rude and undeveloped peoples, while the latter regarded it as a sure indication that common ownership was

[1] Leviticus xxv, 23-28.

fundamentally natural and in accordance with permanent social welfare. The fact that practically all peoples whose history we know discarded communal for private ownership as soon as they had acquired a moderate degree of proficiency in methods of cultivation and in the arts of civilized life does, indeed, create a presumption that the latter system is the better for civilized men. To this extent Sir Henry Maine is right. Against this presumption Henry George maintained that common ownership was abandoned solely because of the usurpation, fraud and force employed by the powerful and privileged classes. Undoubtedly this factor played a great part in bringing about the private ownership that has existed and still exists, but it does not account for the institution as a whole and everywhere. If chiefs, kings and other powerful personages had never usurped control of the land, if no people had ever conquered the territory of another, it is probable that private ownership would have taken place to the same extent, although it would have been much more widely diffused. For the system of periodical repartition of land, to say nothing of communal cultivation and communal distribution of the product, does hinder that attachment to a particular portion of the soil and that intensive cultivation which are so necessary to the best interest of the cultivator, the most productive use of the land, and therefore the welfare of society.

On the other hand, the limitations on the right of private ownership which have been established in so many places and times in favor of those who were not owners, show that men have very generally looked upon land as in some measure the inheritance of all the people. Hence arises the presumption that this conviction is but the reflection of fundamental and permanent human needs.

Summing up the matter, we may say that the history of land tenure points on the whole to the conclusion that private ownership is socially and individually preferable to agrarian communism, but that it should be somewhat strictly limited in the interest of the non-owners, and of the community as a whole.

CHAPTER III

THE ARGUMENTS AGAINST PRIVATE LANDOWNERSHIP

If land were not privately owned there would be no receiving of rent by individuals. Therefore, the morality of the landlord's share of the national product is intimately related to, and is usually treated in connection with, the morality of private ownership.

Substantially all the opponents of private property in land to-day are either Socialists or disciples of Henry George. In the view of the former, land as well as the other means of production should be owned and managed by the State. Although they are more numerous than the Georgeites, their attack upon private landownership is less conspicuous and less formidable than the propaganda carried on by the Henry George men. The Socialists give most of their attention to the artificial instruments of production, dealing with land only incidentally, implicitly, or occasionally. The followers of Henry George, commonly known as Single Taxers or Single Tax men, defend the private ownership of artificial capital, or capital in the strict economic sense, but desire that the control of the community over the natural means of production should be so far extended as to appropriate all economic rent. Their criticism of private ownership is not only more prominent than that made by the Socialists, but is based to a much great extent upon ethical considerations.

Arguments by Socialists

Indeed, the orthodox or Marxian Socialists are logically debarred by their social philosophy from passing a strictly

moral judgment upon property in land. For their theory of economic determinism, or historical materialism, involves the belief that private landownership, like all other social institutions, is a *necessary product* of economic forces and processes. Hence it is neither morally good nor morally bad. Since neither its existence nor its continuance depends upon the human will, it is entirely devoid of moral quality. It is as unmoral as the succession of the seasons, or the movement of the tides. And it will disappear through the inevitable processes of economic evolution. As expressed by Engels: "The growing perception that existing social institutions are unreasonable and unjust, that reason has become unreason, and right wrong, is only proof that in the modes of production and exchange changes have taken place with which the social order, adapted to earlier economic conditions, is no longer in keeping." [1]

Frequently, however, the individual Socialist forgets this materialistic theory, and falls back upon his common sense, and his innate conceptions of right and wrong, of free will and responsibility. Instead of regarding the existing land system as a mere product of blind economic forces, he often denounces it as morally wrong and unjust. His contentions may be reduced to two propositions: The proprietor who takes rent from a cultivator robs the producer of a part of his product; and no one has a right to take for his exclusive use that which is the natural heritage and means of support for all the people. Referring to the receipt of 35,000,000 pounds a year in rent by 8,000 British landlords, Hyndman and Morris exclaim: "Yet in the face of all this a certain school still contend that there is no class robbery." [2] Since the claim that the laborer has a right to the full product of his labor applies to capital as well as to land, it can be more conveniently considered when we come to treat of the income of the capitalist. With regard to the second contention, the following statement by Robert

[1] "Socialism: Utopian and Scientific," p. 45; Chicago, 1900.
[2] "A Summary of the Principles of Socialism," p. 23; London, 1899.

Blatchford may be taken as fairly representative of Socialist thought: "The earth belongs to the people. . . . So that he who possesses land possesses that to which he has no right, and he who invests his savings in land becomes the purchaser of stolen property." [1] Inasmuch as this argument is substantially the same as one of the fundamental contentions in the system of Henry George, it will be discussed in connection with the latter in the pages immediately following.

Henry George's Attack on the Title of First Occupancy

Every concrete right, whether to land or to artificial goods, is based upon some contingent fact or ground, called a title. By reason of some title a man is justified in appropriating a particular farm, house, or hat. When he becomes the proprietor of a thing that has hitherto been ownerless, his title is said to be original; when he acquires an article from some previous owner, his title is said to be derived. As an endless series of proprietors is impossible, every derived title must be traceable ultimately to some original title. Among the derived titles the most important are contract, inheritance, and prescription. The original title is either first occupancy or labor. The prevailing view among the defenders of private landownership has always been that the original title is not labor, but first occupancy. If this title be not valid every derived title is worthless, and no man has a true right to the land that he calls his own. Henry George's attack upon the title of first occupancy is an important link in his argument against private property in land.

"Priority of occupation give exclusive and perpetual title to the surface of a globe in which, in the order of nature, countless generations succeed each other! . . . Has the first comer at a banquet the right to turn back all the chairs, and claim that none of the other guests shall partake of the food provided, except as they make terms

[1] "Socialism: A Reply to the Pope's Encyclical," p. 4; London, 1899.

with him? Does the first man who presents a ticket at the door of a theater, and passes in, acquire by his priority the right to shut the doors and have the performance go on for him alone? . . . And to this manifest absurdity does the recognition of the individual right to land come when carried to its ultimate that any human being, could he concentrate in himself the individual rights to the land of any country, could expel therefrom all the rest of the inhabitants; and could he concentrate the individual rights to the whole surface of the globe, he alone of all the teeming population of the earth would have the right to live." [1]

In passing, it may be observed that Henry George was not the first distinguished writer to use the illustration drawn from the theater. Cicero, St. Basil, and St. Thomas Aquinas all employed it to refute extravagant conceptions of private ownership. In reply to the foregoing argument of Henry George, we point out: first, that the right of ownership created by first occupancy is not unlimited, either extensively or intensively; and, second, that the historical injustices connected with private ownership have been in only a comparatively slight degree due to the first occupation of very large tracts of land. The right of first occupancy does not involve the right to take a whole region or continent, compelling all subsequent arrivals to become tenants of the first. There seems to be no good reason to think that the first occupant is justified in claiming as his own more land than he can cultivate by his own labor, or with the assistance of those who prefer to be his employees or his tenants rather than independent proprietors. "He has not the right to reserve for himself alone the whole territory, but only that part of it which is really useful to him, which he can make fruitful." [2] Nor is the right of private landownership, on whatever title it may rest, unlimited intensively, that is, in its powers or comprehension. Though a man should have become the rightful

[1] "Progress and Poverty," book vii, ch. i.
[2] "La Propriété Privée, par L. Garriguet, I, 62; Paris, 1903.

owner of all the land in a neighborhood, he would have no moral right to exclude therefrom those persons who could not without extreme inconvenience find a living elsewhere. He would be morally bound to let them cultivate it at a fair rental. The Christian conception of the intensive limitations of private ownership is well exemplified in the action of Pope Clement IV, who permitted strangers to occupy the third part of any estate which the proprietor refused to cultivate himself.[1] Ownership understood as the right to do what one pleases with one's possessions, is due partly to the Roman law, partly to the Code Napoléon, but chiefly to modern theories of individualism and the divorce between economic practice and ethical principle.

In the second place, the abuses which have accompanied private property in land are very rarely traceable to abuses of the right of first occupancy. The men who have possessed too much land, and the men who have used their land as an instrument of social oppression, have scarcely ever been first occupants or the successors thereof through derived titles. This is especially true of modern abuses, and modern legal titles. In the words of Herbert Spencer: "Violence, fraud, the prerogative of force, the claims of superior cunning,—these are the sources to which these titles may be traced. The original deeds were written with the sword, rather than with the pen: not lawyers but soldiers were the conveyancers: blows were the current coin given in payment; and for seals blood was used in preference to wax."[2] Not the appropriation of land which nobody owned, but the forcible and fraudulent seizure of land which had already been occupied, has been one of the main causes of the evils attending upon private landownership. Moreover, in England and all other countries that

[1] Cf. Ardant, "Papes et Paysans," pp. 41, sq.

[2] "Social Statics," chap. ix; 1850. Spencer's retractation, in a later edition of this work, of his earlier views on the right of property in land does not affect the truth of the description quoted in the passage above.

have adopted her legal system, the title of first occupancy could never be utilized by individuals: all unoccupied land was claimed by the Crown or by the State, and transferred thence to private persons or corporations. If some individuals have got possession of too much land through this process, the State, not the title of first occupancy, must bear the blame. This is quite clear in the history of land tenure in the United States and Australasia.

Henry George's attack upon private landownership through the title of first occupancy is therefore ineffective; for he attributes to it qualities that it does not possess, and consequences for which it is not responsible.

His Defense of the Title of Labor

Thinking that he has shattered the title of first occupancy, Henry George undertakes to set up in its place the title of labor. "There can be to the ownership of anything no rightful title which is not derived from the title of the producer, and does not rest on the natural right of the man to himself." [1] The only original title is man's right to the exercise of his own faculties; from this right follows his right to what he produces; now man does not produce land; therefore he cannot have rightful property in land. Of these four propositions the first is a pure assumption, the second is untrue, the third is a truism, and the fourth is as unfounded as the first. Dependently upon God, man has, indeed, a right to himself and to the exercise of his own faculties; but this is a right of action, not of property. By the exercise of this right alone man can never produce anything, never become the owner of anything. He can produce only by exerting his powers upon something outside of himself; that is, upon the goods of external nature. To become the producer and the owner of a product, he must first become the owner of materials. By what title is he to acquire these? In one passage[2]

[1] "Progress and Poverty," loc. cit.
[2] "Open Letter to Pope Leo XIII," page 25 of Vierth's edition.

Henry George seems to think that no title is necessary, and refers to the raw material as an "accident," while the finished product is the "essence," declaring that "the right of private ownership attaches the accident to the essence, and gives the right of ownership to the natural material in which the labor of production is embodied." Now this solution of the difficulty is too simple and arbitrary. Its author would have shrunk from applying it universally; for example, to the case of the shoemaker who produces a pair of shoes out of stolen materials, or the burglar who makes an overcoat more useful (and therefore performs a task of production) by transferring it from a warehouse to his shivering back! Evidently Henry George has in mind only raw material in the strict sense, that which has not yet been separated from the storehouse of nature; for he declares in another place that "the right to the produce of labor cannot be enjoyed without the free use of the opportunities offered by nature." [1] In other words, man's title to the materials upon which he is to exercise his faculties, and of which he is to become the owner by right of production, is the title of gift conferred by nature, or nature's God.

Nevertheless this title is applicable only to those goods that exist in unlimited abundance, not to those parts of the natural bounty that are scarce and possess economic value. A general assumption by producers that they were entitled to take possession of the gifts of nature indiscriminately would mean industrial anarchy and civil war. Hence Henry George tells us that the individual should pay rent to "the community to satisfy the equal rights of all other members of the community." [2] Inasmuch as the individual must pay this price before he begins to produce, his right to the use of natural opportunities is not "free," nor does his labor alone constitute a title to that part of them that he utilizes in production. Consequently labor does not

[1] "Progress and Poverty," loc. cit.
[2] "Progress and Poverty," loc. cit.

create a right to the concrete product. It merely gives the producer a right to the value that he adds to the raw material. His right to the raw material itself, to the elements that he withdraws from the common store, and fashions into a product, say, wheat, lumber, or steel, does not originate in the title of labor but in the title of contract. This is the contract by which in exchange for rent paid to the community he is authorized to utilize these materials. Until he has made this contract he has manifestly no full right to the product into which natural forces as well as his own labor have entered. According to Henry George's own statements, therefore, the right to the product does not spring from labor alone, but from labor plus compensation to the community. Since the contract by which the prospective user agrees to pay this compensation or rent must precede his application of labor, it instead of labor is the original title. Since the contract is made with a particular community for the use of a particular piece of land, the title that it conveys must derive ultimately from the occupation of that land by that community,—or some previous community of which the present one is the legal heir. So far as economically valuable materials are concerned, therefore, the logic of Henry George's principles leads inevitably to the conclusion that the original title of ownership is first occupancy.

Even in the case of economically free goods, the original title of ownership is occupancy. Henry George declares that the traveler who has filled his vessels at a free-for-all spring owns the water when he has carried it into a desert, by the title of labor.[1] Nevertheless, in its original place this water belonged either to the community or to nobody. In the former supposition it can become the property of the traveler only through an explicit or implicit gift from the community; and it is this contract, not labor, that constitutes his title to the water. If we assume that the spring was ownerless, we see that the labor of carrying a portion

[1] "Open Letter to Pope Leo XIII," loc. cit.

of it into the desert still lacks the qualifications of a title; for the abstracted water must have belonged to him before he began the journey. It must have been his from the moment that he separated it from the spring. Otherwise he had no right to take it away. His labor of transporting it gave him a right to the utility thus added to the water, but not a right to the water when it first found a local habitation in his vessels. Nor was the labor of transferring it from the spring into his vessels the true title; for labor alone cannot create a right to the material upon which it is exerted, as we see in the case of stolen objects. If it be contended that labor together with the natural right to use the ownerless goods of nature have all the elements of a valid title, the assertion must be rejected as unprecise and inadequate. The right to use ownerless goods is a general and abstract right that requires to become specific and concrete through some title. In the case of water it is a right to water in general, to some water, but not a right to a definite portion of the water in this particular spring. The required and sufficient title here is that of apprehension, occupation, the act of separating a portion from the natural reservoir. Therefore, it is first occupancy as exemplified in mere seizure of an ownerless good, not labor in the sense of productive activity, nor labor in the sense of painful exertion, that constitutes the precise title whereby the man acquires a right to the water that he has put into his cup or barrel. Mere seizure is a sufficient title in all such cases as that which we are now considering simply because it is a reasonable method of determining and specifying ownership. There is no need whatever of having recourse to the concept of labor to justify this kind of property right. In the present case, indeed, the acts of apprehension and of productive labor (the labor of dipping the water into a vessel *is* productive inasmuch as the water is more useful there than in the spring) are the same physically, but they are distinct logically and ethically. One is mere occupation, while the other is production;

and ownership of a thing must precede, in morals if not in time, the expenditure upon it of productive labor.

"The theory which bases the right of property on labor really depends in the ultimate resort on the right of possession and the fact that it is socially expedient, and is therefore upheld by the laws of society. Grotius, discussing this in the old Roman days, pointed out that since nothing can be made except out of pre-existing matter, acquisition by means of labor depends, ultimately, on possession by means of occupation." [1]

Since man's right to his faculties does not of itself give him a right to exercise them upon material objects, productive labor cannot of itself give him a right to the product therefrom created, nor constitute the original title of ownership. Since labor is not the original title to property, it is not the only possible title to property in land. Hence the fact that labor does not produce land, has no bearing on the question of private landownership.

In passing it may be observed that Henry George implicitly admitted that the argument from the labor title was not of itself sufficient to disprove the right of private property in land. Considering the objection, "if private property in land be not just, then private property in the products of land is not just, as the material of these products is taken from the land," he replied that the latter form of ownership "is in reality a mere right of temporary possession," since the raw material in the products sooner or later returns to the "reservoirs provided for all . . . and thus the ownership of them by one works no injury to others." [2] But private ownership of land, he continued, shuts out others from the very reservoirs. Here we have a complete abandonment of the principle which underlies the labor argument. Instead of trying to show from the nature of the situation that there is a logical difference between the two kinds of ownership, he shifts his ground

[1] Whittaker, op. cit., p. 32.
[2] "Open Letter," loc. cit.

to a consideration of consequences. He makes the title of social utility instead of the title of labor the distinguishing and decisive consideration. As we shall see later, he is wrong even on this ground; for the fundamental justification of private landownership is precisely the fact that it is the system of land tenure most conducive to human welfare. At present we merely call attention to the breakdown in his own hands of the labor argument.

To sum up the entire discussion on the original title of ownership: Henry George's attack upon first occupancy is futile because based upon an exaggerated conception of the scope of private landownership, and upon a false assumption concerning the responsibility of that title for the historical evils of the system. His attempt to substitute labor as the original title is likewise unsuccessful, since labor can give a right only to the utility added to natural materials, not to the materials themselves. Ownership of the latter reaches back finally to occupation. Whence it follows that the title to an artificial thing, such as a hat or coat, water taken from a spring, a fish drawn from the sea, is a joint or twofold title; namely, occupation and labor. Where the product embodies scarce and economically valuable raw material, occupation is usually prior to labor in time; in *all* cases it is prior to labor logically and ethically. Since labor is not the original title, its absence in the case of land does not leave that form of property unjustified. The title of first occupancy remains. In a word, the one original title of all property, natural and artificial, is first occupancy.

The other arguments of Henry George against private landownership are based upon the assumed right of all mankind to land and land values, and on the contention that this right is violated by the present system of tenure.

The Right of All Men to the Bounty of the Earth

"The equal right of all men to the use of land is as clear as their equal right to breathe the air—it is a right

proclaimed by the fact of their existence. For we cannot suppose that some men have a right to be in the world, and others no right.

"If we are here by the equal permission of the Creator, we are all here with an equal title to the enjoyment of his bounty—with an equal right to the use of all that nature so impartially offers. . . . There is in nature no such thing as a fee simple in land. There is on earth no power which can rightfully make a grant of exclusive ownership of land. If all existing men were to grant away their equal rights, they could not grant away the rights of those who follow them. For what are we but tenants for a day? Have we made the earth that we should determine the rights of those who after us shall tenant it in their turn?" [1]

The right to use the goods of nature for the support of life is certainly a fundamental natural right; and it is substantially equal in all persons. It arises, on the one hand, from man's intrinsic worth, his essential needs, and his final destiny; and, on the other hand, from the fact that nature's bounty has been placed by God at the disposal of all His children indiscriminately. But this is a general and abstract right. What does it imply specifically and in the concrete? In the first place, it includes the actual and continuous use of some land; for a man cannot support life unless he is permitted to occupy some portion of the earth for the purposes of working, and eating, and sleeping. Secondly, it means that in time of extreme need, and when more orderly methods are not available, a man has the right to seize sufficient goods, natural or produced, public or private, to support life. So much is admitted and taught by all Catholic authorities, and probably by all other authorities. Furthermore, the abstract right in question seems very clearly to include the concrete right to obtain on reasonable conditions at least the requisites of a decent livelihood; for example, by direct access to a piece of land, or in return for a reasonable amount of useful labor. All

[1] "Progress and Poverty," book vii, ch. i.

of these particular rights are equally valid in all persons, owing to the essential equality of all persons.

Does the equal right to use the bounty of nature include the right to equal *shares* of land, or land values, or land advantages? Since the resources of nature have been given to all men in general, and since human nature is specifically and juridically equal in all, have not all persons the right to share equally in these resources? Suppose that some philanthropist hands over to one hundred persons an uninhabited island, on condition that they shall divide it among themselves with absolute justice. Are they not obliged to divide it equally? On what ground can any person claim or be awarded a larger share than his fellows? None is of greater intrinsic worth than another, nor has any one made efforts, or sacrifices, or products which will entitle him to exceptional treatment. The correct principle of distribution would seem to be absolute equality, except in so far as it may be modified on account of varying needs, and varying capacities for social service. In any just distribution account must be taken of differences in needs and capacities; for it is not just to treat men as equal in those respects in which they are unequal, nor is it fair to deprive the community of those social benefits which can be obtained only by giving exceptional rewards for exceptional services. The same amount of food allotted to two persons might leave one hungry and the other sated; the same amount of land assigned to two persons might tempt the one to wastefulness and discourage the other. To be sure, the factor of exceptional capacity should not figure in the distribution until all persons had received that measure of natural goods which was in each case sufficient for a decent livelihood. For the fundamental justification of any distribution is to be sought in human needs; and among human needs the most deserving and the most urgent are those which must be satisfied as a prerequisite to right and reasonable life.

Now it is true that private ownership of land has no-

where realized this principle of proportional equality and proportional justice. No such result is possible in a system that, in addition to other difficulties, would be required to make a new distribution at every birth and at every death. Private ownership of land can never bring about ideal justice in distribution. Nevertheless it is not necessarily out of harmony with the demands of *practical* justice. A community that lacks either the knowledge or the power to establish the ideal system is not guilty of actual injustice because of this failure. In such a situation the proportionally equal rights of all men to the bounty of nature are not actual rights. They are conditional, or hypothetical, or suspended. At best they have no more moral validity than the right of a creditor to a loan that, owing to the untimely death of the debtor, he can never recover. In both cases it is misleading to talk of injustice; for this term always implies that some person or community is guilty of some action which could have been avoided. The system of private landownership is not, indeed, perfect; but this is not exceptional in a world where the ideal is never attained, and all things are imperfect. Henry George declares that "there is on earth no power which can rightfully make a grant of exclusive ownership in land"; but what would he have a community do which has never heard of his system? Introduce some crude form of communism, or refrain from using the land at all, and permit the people to starve to death in the interests of ideal justice? Evidently such a community must make grants of exclusive ownership, and these will be as valid in reason and in morals as any other act that is subject to human limitations which are at the time irremovable.

Perhaps the Single Taxer would admit the force of the foregoing argument. He might insist that the titles given by the State in such conditions were not exclusive grants in the strict sense, but were valid only until a better system could be set up, and the people put in possession of their natural heritage. Let us suppose, then, that a nation

were shown "a more excellent way." Suppose that the people of the United States set about to establish Henry George's system in the way that he himself advocated. They would forthwith impose upon all land an annual tax equivalent to the annual rent. What would be the effect upon private land-incomes, and private land-wealth? Since the first would be handed over to the State in the form of a tax, the second would utterly disappear. For the value of land, like the value of any other economic good, depends upon the utilities that it embodies or produces. Whoever controls these will control the market value of the land itself. No man will pay anything for a revenue-producing property if some one else, for example the State, is forever to take the revenue. The owner of a piece of land which brings him an annual revenue or rent of one hundred dollars, will not find a purchaser for it if the State appropriates the one hundred dollars in the form of a tax that is to be levied year after year for all time. On the assumption that the revenue represents a selling value of two thousand dollars, the private owner will be worth that much less after the introduction of the new system.

Henry George defends this proceeding as emphatically just, and denies the justice of compensating the private owner. In the chapter of "Progress and Poverty" headed "Claim of Land Owners to Compensation" he declares that "private property in land is a bold, bare, enormous wrong, like that of chattel slavery"; and against Mill's statement that land owners have a right to rent and to the selling value of their holdings, he exclaims: "If the land of any country belong to the people of that country, what right, in morality and justice, have the individuals called landowners to the rent? If the land belong to the people, why in the name of morality and justice should the people pay its salable value for their own?" [1]

Here, then, we have the full implication of the Georgean principle that private property in land is essentially unjust.

[1] Cf. chapter entitled "Compensation" in "A Perplexed Philosopher."

It is not merely imperfect,—tolerable while unavoidable. When it can be supplanted by the right system, its inequalities must not continue under another form. If inequalities are continued through the compensation of private owners, individuals are still hindered from enjoying their equal rights to land, and the State becomes guilty of formal and culpable injustice. The titles which the State formerly guaranteed to the private owners did not have in morals the perpetual validity which they professed to have. Since the State is not the owner of the land, it was morally powerless to create or sanction titles of this character. Even if all the citizens at any given time had deliberately transferred the necessary authorization to the State, "they could not," in the words of Henry George, "grant away the right of those who follow them." The individual's right to land is innate and natural, not civil or social. The author of "Progress and Poverty" attributes to the individual's *common* right to land precisely the same absolute character that Father Liberatore predicates of the right to become a *private* land owner.[1] In the view of Henry George the State is merely the trustee of the land, having the duty of distributing its benefits and values so as to make effective the equal rights of all individuals. Consequently, the legal titles of private ownership which it creates or sanctions are valid only so long as nothing better is available. At best such titles have no greater moral force than the title by which an innocent purchaser holds a stolen watch; and the persons who are thereby deprived of their proper shares of land benefits, have the same right to recover them from the existing private owners that the watch-owner has to recover his property from the innocent purchaser. Hence the demand for compensation has no more merit in the one case than in the other.

To the objection that the civil laws of many civilized countries would permit the innocent purchaser of the watch to retain it, provided that sufficient time had elapsed to

[1] Cf. "Principles of Political Economy," 1891, æp. 130.

create a title of prescription, the Single Taxer would reply that the two kinds of goods are not on the same moral basis in all respects. He would contend that the natural heritage of the race is too important for human welfare to fall under the title of prescription, and that it is absolutely inalienable.

To put the matter briefly, then, Henry George contends that the individual's equal right to land is so much superior to the claim of the private owner that the latter must give way, even when it represents an expenditure of money or other valuable goods. The average opponent does not seem to realize the full force of the impression which this theory makes upon the man who overemphasizes the innate rights of men to a share in the gifts of nature. Let us see whether this right has the absolute and overpowering value which is attributed to it by Henry George.

In considering this question, the supremely important fact to be kept in mind is that the natural right to land is not an end in itself. It is not a prerogative that inheres in men, regardless of its purposes or effects. It has validity only in so far as it promotes individual and social welfare. As regards individual welfare, we must bear in mind that this phrase includes the well being of all persons, of those who do as well as of those who do not at present enjoy the benefits of private landownership. Consequently the proposal to restore to the "disinherited" the use of their land rights must be judged by its effects upon the welfare of all persons. If existing landowners are not compensated they are deprived, in varying amounts, of the conditions of material well being to which they have become accustomed, and are thereby subjected to varying degrees of positive inconvenience and hardship. The assertion that this loss would be offset by the moral gain in altruistic feelings and consciousness may be passed over as applying to a different race of beings from those who would be despoiled. The hardship is aggravated considerably by the fact that very many of the dispossessed private

owners have paid the full value of their land out of the earnings of labor or capital, and that all of them have been encouraged by society and the State to regard landed property in precisely the same way as any other kind of property. In the latter respect they are not in the same position as the innocent purchaser of the stolen watch; for they have never been warned by society that the land might have been virtually stolen, or that the supposedly rightful claimants might some day be empowered by the law to recover possession. On the other hand, the persons who own no land under the present system, the persons who are deprived of their "birthright," suffer no such degree of hardship when they are continued in that condition. They are kept out of something which they have never possessed, which they have never hoped to get by any such easy method, and from which they have not been accustomed to derive any benefit. To prolong this condition is not to inflict upon them any new or positive inconvenience. Evidently their welfare and claims in the circumstances are not of the same moral importance as the welfare and claims of persons who would be called upon to suffer the loss of goods already possessed and enjoyed, and acquired with the full sanction of society.

Henry George is fond of comparing the private owner of land with the slave owner, and the landless man with the man enslaved; but there is a world of difference between their respective positions and moral claims. Liberty is immeasurably more important than land, and the hardship suffered by the master when he is compelled to free the slave is immeasurably less than that endured by the slave who is forcibly detained in bondage. Moreover, the moral sense of mankind recognizes that it is in accordance with equity to compensate slave owners when the slaves are legally emancipated. Infinitely stronger is the claim of the landowner to compensation.

If the Georgeite replies that the landless man is at present kept out of something to which he has a right, while

confiscation would take from the private owner something which does not really belong to him, the rejoinder must be that this assertion begs the question. The question is likewise begged when the unreasonable defender of private property declares that the right of the landless is vague and undetermined, and therefore morally inferior to the determinate and specific right of the individual landowner. This is precisely the question to be solved. Does the abstract right of the landless man become a concrete right which is so strong as to justify confiscation? Is his natural right valid against the acquired right of the private proprietor? These questions can be answered intelligently only by applying the test of human welfare, individual and social. To say that land of its very nature is not morally susceptible of private ownership, is to make an easy assertion that may be as easily denied. To interpret man's natural right to land by any other standard than human welfare, is to make of it a fetish, not a thing of reason. Henry George himself seemed to recognize this when he wrote that eloquent but overdrawn and one-sided description of the effects of private ownership in the chapter entitled, "Claim of Landowners to Compensation." [1]

When we say that human welfare is the final determinant of the right to land, we understand this phrase in the widest possible sense. To divide the goods of the idle rich among the deserving poor, might be temporarily beneficial to both these classes, but the more remote and enduring consequences would be individually and socially disastrous. To restore a legacy to persons who had been defrauded of it when very young, would probably cause more hardship to the swindler than the heirs would have suffered had there been no restitution; nevertheless the larger view of human welfare requires that the stolen legacy be restored. When, however, two or three generations have been kept out of their inheritance, the civil law permits the children of the swindler to retain the property

[1] "Progress and Poverty."

by the title of prescription; and for precisely the same reason, human welfare.

The social consequences of the confiscation of rent and land values would be even more injurious than those falling upon the individuals despoiled. Social peace and order would be gravely disturbed by the protests and opposition of the landowners, while the popular conception of property rights, and of the inviolability of property, would be greatly weakened, if not entirely destroyed. The average man would not grasp or seriously consider the Georgean distinction between land and other kinds of property in this connection. He would infer that purchase, or inheritance, or bequests, or any other title having the immemorial sanction of the State, does not create a moral right to movable goods any more than to land. This would be especially likely in the matter of capital. Why should the capitalist, who is no more a worker than the landowner, be permitted to extract revenue from his possessions? In both cases the most significant and practical feature is that one class of men contributes to another class as annual payment for the use of socially necessary productive goods. If rent-confiscation would benefit a large number of people, why not increase the number by confiscating interest? Indeed, the proposal to confiscate rent is so abhorrent to the moral sense of the average man that it could never take place except in conditions of revolution and anarchy. If that day should ever arrive the policy of confiscation would not stop with land.

The Alleged Right of the Community to Land Values

In the foregoing pages we have confined our attention to the Georgean principle which bases men's common right to land and rent upon their common nature, and their common claims to the material gifts of the Creator. Another argument against private ownership takes this form: "Consider what rent is. It does not arise spontaneously from the soil; it is due to nothing that the landowners have

done. It represents a value created by the whole community. . . . But rent, the creation of the whole community, necessarily belongs to the whole community." [1]

Before taking up the main contention in this passage, let us notice two incidental points. If all rent be due to the community by the title of social production, why does Henry George defend at such length the title of birthright? If the latter title does not extend to rent it is restricted to land which is so plentiful as to yield no rent. Since the owners or holders of such land rarely take the trouble to exclude any one from it, the right in question, the inborn right, has not much practical value. Probably, however, the words quoted above ought not to be interpreted as excluding the title of birthright. In that case, the meaning would be that rent belongs to the community by the title of production, as well as by the congenital title.

The second preliminary consideration is that the community does not create *all* land values nor *all* rent. These things are as certainly due to nature as to social action. In no case can they be attributed exclusively to one factor. Land that has no natural qualities or capacities suitable for the satisfaction of human wants will never have value or yield rent, no matter what society does in connection with it: the richest land in the world will likewise remain valueless until it is brought into relation with society, with at least two human beings. If Henry George merely means to say that, without the presence of the community, land will not produce rent, he is stating something that is perfectly obvious, but it is not peculiar to land. Manufactured products would have no value outside of society, yet no one maintains that their value is all created by social action. Although the value of land is always due to both nature and society, for practical purposes we may correctly attribute the value of a particular piece of land predominantly to nature, or predominantly to society. When three tracts, equally distant from a city, and equally

[1] "Progress and Poverty," book vii, ch. iii.

affected by society and its activities, have different values because one is fit only for grazing, while the second produces large crops of wheat, and the third contains a rich coal mine, their relative values are evidently due to nature rather than to society. On the other hand, the varying values of two equally fertile pieces of land unequally distant from a city, must be ascribed primarily to social action. In general, it is probably safe to say that almost all the value of land in cities, and the greater part of the value of land in thickly settled districts, is specifically due to social action rather than to differences in fertility. Nevertheless, it remains true that the value of every piece of land arises partly from nature, and partly from society; but it is impossible to say in what proportion.

Our present concern is with those values and rents which are to be attributed to social action. These cannot be claimed by any person, nor by any community, in virtue of the individual's natural right to the bounty of nature. Since they are not included among the ready made gifts of God, they are no part of man's birthright. If they belong to all the people the title to them must be sought in some historical fact, some fact of experience, some social fact. According to Henry George, the required title is found in production. Socially created land values and rents belong to the community because the community, not the private proprietor, has produced them. Let us see in what sense the community produces the social value of land.

In the first place, this value is produced by the community in two different senses of the word community, namely, as a civil, corporate entity, and as a group of individuals who do not form a moral unit. Under the first head must be placed a great deal of the value of land in cities; for example, that which arises from municipal institutions and improvements, such as fire and police protection, waterworks, sewers, paved streets, and parks. On the other hand, a considerable part of land values both within and without cities is due, not to the community as a civil body,

but to the community as a collection of individuals and groups of individuals. Thus, the erection and maintenance of buildings, the various economic exchanges of goods and labor, the superior opportunities for social intercourse and amusement which characterize a city, make the land of the city and its environs more valuable than land at a distance. While the activities involved in these economic and "social" facts and relations are, indeed, a social not an individual product, they are the product of small, temporary, and shifting groups within the community. They are not the activities of the community as a moral whole. For example, the maintenance of a grocery business implies a series of social relations and agreements between the grocer and his customers; but none of these transactions is participated in by the community acting as a community. Consequently such actions and relations, and the land values to which they give rise are not due to, are not the products of the community as a unit, as a moral body, as an organic entity. What is true of the land values created by the grocery business applies to the values which are due to other economic institutions and relations, as well as to those values which arise out of the purely "social" activities and advantages. If these values are to go to their producers they must be taken, in various proportions, by the different small groups and the various individuals whose actions and transactions have been directly responsible.

To distribute these values among the producers thereof in proportion to the productive contribution of each person is obviously impossible. How can it be known, for example, what portion of the increase in the value of a city's real estate during a given year is due to the merchants, the manufacturers, the railroads, the laborers, the professional classes, or the city as a corporation? The only practical method is for the city or other political unit to act as the representative of all its members, appropriate the increase in value, and distribute it among the citizens in the form

of public services, institutions, and improvements. Assuming that the socially produced value of land ought to go to its social producer rather than to the individual proprietor, this method of public appropriation and disbursement would seem to be the nearest approximation to practical justice that is available.

Is the assumption correct? Do the socially produced land values necessarily belong to the producer? Does not the assumption rest upon a misconception of the moral validity of production as a canon of distribution? Let us examine some of the ways in which values are produced.

The man who converts leather and other suitable raw materials into a pair of shoes, increases the utility of these materials, and in normal market conditions increases their value. In a certain sense he has created value, and he is universally acknowledged to have a right to this product. Similarly the man who increases the value of land by fertilizing, irrigating, or draining it, is conceded the benefit of these improvements by the title of production.

But value may be increased by mere restriction of supply, and by mere increase in demand. If a group of men get control of the existing supply of wheat or cotton, they can artificially raise the price, thereby producing value as effectively as the shoemaker or the farmer. If a syndicate of speculators gets possession of all the land of a certain quality in a community, they can likewise increase its value, produce new value. If a few powerful leaders of fashion decide to adopt a certain style of millinery, their action and example will effect an increase in the demand for and the value of that kind of goods. Yet none of these producers of value are regarded as having a moral right to their product.

When we turn to what is called the social creation of land values, we find that it takes two forms. It always implies increase of social demand; but the latter may be either purely subjective, reflecting merely the desires and power of the demanders themselves, or it may have an

objective basis connected with the land. In the first case it may be due solely to an increase of population. Within the last few years, agricultural land which is no more fertile nor any better situated with regard to markets or other social advantages than it was thirty years ago, has risen in value because its products have risen in value. Its products have become dearer because population, and therefore demand, have grown faster than agricultural production. Merely by increasing its wants the population has produced land values; but it has obviously no more right to them than have the leaders of fashion to the enhanced value which they have given to feminine headgear. On the other hand, the increased demand for land, and the consequent increase in its value, are frequently attributable specifically to changes connected with the land itself. They are changes which affect its utility rather than its scarcity. The farmer who irrigates desert land increases its utility, as it were, *intrinsically*. The community that establishes a city increases the utility of the land therein and thereabout *extrinsically*. New *relations* are introduced between that land and certain desirable social institutions. Land that was formerly useful only for agriculture becomes profitable for a factory or a store. Through its new external relations, the land acquires new utility; or better, its latent and potential uses have become actual. Now these new relations, these utility-creating and value-creating relations, have been established by society in its corporate capacity through civil institutions and activities, and in its non-corporate capacity through the economic and "social" (in the narrower "society" sense) activities of groups and individuals. In this sense, then, the community has created the increased land values. Has it a strict right to them? a right so rigorous and exact that private appropriation of them is unjust?

As we have just seen, men do not admit that all production of value constitutes a title of ownership. Neither the monopolist who increases value by restricting supply,

nor the pacemakers of fashion who increase value by merely increasing demand, are regarded as possessing a moral right to the value that they have "created." It is increase of utility, and not either actual or virtual increase of scarcity to which men attribute a moral claim. Why do men assign these different ethical qualities to the production of value? Why has the shoemaker a right to the value that he adds to the raw material in making a pair of shoes? What is the precise basis of his right? It cannot be labor merely; for the cotton monopolist has labored in getting his corner on cotton. It cannot be the fact that the shoemaker's labor is socially useful, for a chemist might spend laborious days and nights producing water from its component elements, and find his product a drug on the market. Yet he would have no reasonable ground of complaint. Why, then, is it reasonable for the shoemaker to require, why has he a right to require payment for the utilities that he produces? Because men want to use his products, and because they have no right to require him to serve them without compensation. He is morally and juridically their equal, and has the same right as they to access on reasonable terms to the earth and the earth's possibilities of a livelihood. Being thus equal to his fellows, he is under no obligation to subordinate himself to them by becoming a mere instrument for their welfare. To assume that he is obliged to produce socially useful things without remuneration, is to assume that all these propositions are false; it is to assume that his life and personality and personal development are of no intrinsic importance, and that his pursuit of the essential ends of life has no meaning except in so far as may be conducive to his function as an instrument of production. In a word, the ultimate basis of the producer's right to his product, or its value, is the fact that this is the only way in which he can get his just share of the earth's goods, and of the means of life and personal development. His right to compensation does not rest on the mere fact of value-production.

As a producer of land values, the community is not on the same moral ground with the shoemaker. Its productive action is indirect and extrinsic, instead of direct and intrinsic, and is merely incidental to its principal activities and purposes. Land values are a resultant which do not require the community to devote thereto a single moment of time or a single ounce of effort. The activities of which land values are a resultant have already been remunerated in the price paid to the wage-earner for his labor, the physician for his services, the manufacturer and the merchant for their wares, and the municipal corporation in the form of taxes. On what ground can the community, or any part of it, set up a claim in strict justice to the increased land values? The right of the members of the community to the means of living and self-development is not dependent upon these values. Nor are they treated as instruments to the welfare of the private owners who do get the socially created land values; for they expend neither time nor labor in the interest of the latter directly. Their labor is precisely what it would have been had there been no increase in the value of the land.

Since social production does not constitute a right to land values nor to rent, it affords not a shadow of justification for the confiscation of these things by the community. If social appropriation of socially created land values had been introduced with the first occupation of a piece of land, it might possibly have proved more generally beneficial than the present system. In that case, however, the moral claim of the community to these values would have rested on the fact that they did not belong to anybody by a title of strict justice. They would have been a "res nullius" ("nobody's property") which might fairly have been taken by the community according as they made their appearance. The community could have appropriated them by the title of first occupancy. But there could have been no moral title of social production. When, however, the community or the State failed to take advan-

tage of its opportunity to be the first occupant of these values, when it permitted the individual proprietor to appropriate them, it forfeited its own claim. Ever since it has had no more right to already existing land values than it has to seize the laborer's wages or the capitalist's interest,—no more right than one person has to recover a gift or donation that he has unconditionally bestowed upon another.

To sum up the conclusions of this chapter: The argument against first occupancy is valid only with regard to the abuses of private ownership, not with regard to the institution; the argument based upon the title of labor is the outcome of a faulty analysis, and is inconsistent with other statements of its author; the argument derived from men's equal rights to land merely proves that private ownership does not secure perfect justice, and the proposal to correct this defect by confiscating rent is unjust because it would produce greater evils; and the so-called production of the social values of land confers upon the community no property right whatever.

CHAPTER IV

PRIVATE OWNERSHIP THE BEST SYSTEM OF LAND TENURE

THE defense of private landownership set forth in the last chapter has been conditional. It has tended to show that the institution is morally lawful so long as no better system is available. As soon as a better system has been discovered, the State and the citizens are undoubtedly under some degree of moral obligation to put it into practice. Hence the important present question is whether this condition or contingency has become a reality. The only proposed and the only possible alternative systems are Socialism and the Single Tax. All other forms of tenure are properly classed as modifications of private ownership, rather than as distinct systems. Consequently the worth, and efficiency, and morality of private ownership can be adequately determined by comparison with the two just mentioned.

The Socialist Proposals Impracticable

As now existing and as commonly understood, private landownership comprises four elements which are not found together in either Socialism or the Single Tax. They are: security of possession combined with the power to transfer and transmit; the use of land combined with the power to let the use to others; the receipt of revenue from improvements in or upon the land; and the receipt of economic rent, the revenue due to the land itself, apart from improvements. In its extreme form, and as formerly understood by the majority of its authoritative expon-

ents, Socialism would take from the individual all of these elements or powers. The State, or the Collectivity, would own and manage all productive land and land-capital, and would receive and distribute the product. Consequently the cultivators of the land would be deprived of even that limited degree of control which is now possessed by the tenant on a rented farm; for the latter, though not a landowner, is the owner of a farming business, and of agricultural instruments of production. Under Socialism the users of the land would not receive the revenue either from improvements or from the land itself. They would be substantially employees of the community, receiving a share of the product according to some plan of distribution established by public authority. Land occupied by dwellings would likewise be owned and managed by the State, although its product, the benefit of its use, would necessarily go in the first instance to the occupier. In return for this benefit he would undoubtedly be required to pay some kind of rent to the State.

Now the majority of persons believe that this system of land tenure would be inferior to private ownership, both as regards individual welfare and social welfare. The reasons for this belief will be given in detail in the chapter on "The Socialist Scheme of Industry." For the present it will be sufficient to point out in a summary way that Socialism would be unable to organize and carry on efficiently all agricultural and extractive industries, either under one central direction or under many provincial authorities; that it could not adjust wages and salaries satisfactorily, nor give the individual worker an incentive as effective as the self-interest that goes with private ownership; that it would deprive the worker of a great part of the freedom that he now enjoys in the matters of occupation and residence; that it would leave to the consumer less choice in the demand for the products of land; that it would place all the people in a position of dependence upon a single agency for all these products; and that it would

make all land users, whether as workers or as residents, tenants-at-will on the property of the State.

From the nature of the case, none of the foregoing propositions can be demonstrated mathematically. Nevertheless they are as nearly evident as any other practical conclusions which are based upon our general experience of human nature, its tendencies, and its limitations. At any rate, the burden of proof is upon the advocates of the new system. Until they have assumed and satisfactorily disposed of this burden, we are justified in rejecting their prophecies, and in maintaining the superiority of private ownership.[1]

To-day, however, many Socialists, possibly the majority of them in some countries, would reject the extreme form of land socialization discussed in the preceding paragraphs. "The nearest approach which Socialists have made to a *volte face* since Marx, has been in relation to Agrarianism. . . . Marx thought that the advantage of concentrating capital would be felt in agriculture as in other industries; but, in spite of a temporary confirmation of this view by the mammoth farms which sprang up in North America, it now appears very doubtful. . . . Recognition of this has led reformists to substitute a policy of actively assisting the peasants for the orthodox policy of leaving them to succumb to capitalism. Their formula is: 'Collectivize credit, transport, exchange, and all subsidiary manufacture, but individualize culture.' " [2] The Belgian Socialist leader, Vandervelde, seems to prefer State ownership and management of the great agricultural industries which require large masses of capital for their efficient operation, such as dairying, distilling and sugar making, together with State ownership of the land thus used. Other lands he would have owned by the State, but cultivated by individuals according to a system of leasing and rent-paying.[3]

[1] Cf. Chapter xi.
[2] Ensor, "Modern Socialism," p. xxxi, N. Y., 1904
[3] Idem, pp. 213-216.

By a referendum vote the members of the Socialist party in the United States recently amended their platform on land to read as follows: "The Socialist party strives to prevent land from being used for the purpose of exploitation and speculation. It demands the collective possession, control or management of land to whatever extent may be necessary to attain that end. It is not opposed to the occupation and possession of land by those using it in a useful and bona fide manner without exploitation." [1] As to land occupied by dwellings, perhaps the majority of Socialists would now agree with Spargo in the statement that, "so far as the central principle of Socialism is concerned, there is no more reason for denying the right of a man to own his own home than there is to deny him the right to own his hat." [2]

In so far as the foregoing modifications of Socialist proposals would allow the individual to own the land that he cultivates or occupies, they do not call for further discussion here. In so far as they combine State ownership of land with individual management of cultivation, they are subject to at least all the limitations of the Single Tax. To the latter system we now turn our attention.

Inferiority of the Single Tax System

Of the four leading elements of private ownership enumerated above, the Single Tax scheme would comprise all but one. In the words of Henry George himself: "Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to call *their* land. Let them continue to call it *their* land. Let them buy and sell, and bequeath and devise it. We may safely leave them the shell, if we take the kernel. *It is not necessary to confiscate land; it is only necessary to confiscate rent.* . . . In this way the State may become the universal landlord without calling herself so, and without assuming a

[1] Cited by Spargo, "The Substance of Socialism," p. 88, N. Y., 1909.
[2] Idem. p. 90.

single new function. In form, the ownership of land would remain just as now. No owner of land need be dispossessed, and no restriction need be placed upon the amount of land that any one could hold." [1]

Individuals would, therefore, still enjoy security of possession, the managerial use of land, and the revenue due to improvements. The income arising from the land itself, the economic rent, they would be obliged to hand over as a free gift to the State. As we have seen in a preceding chapter, this confiscation of rent by the State would be pure and simple robbery of the private owner. Suppose, however, that the State were willing to compensate individual proprietors with a sum equal to the present value, or the capitalized rent, of their land. In that case the only difference made to the individual would be that he could no longer invest his money in land nor profit by the increases in land values. While this would deprive some persons of advantages that they now enjoy, it would be beneficial to the majority, and to the community. Since no man would find it profitable to retain control of more land than he could use himself, the number of actual land users would be increased. The land speculator would disappear, together with the opportunity of making and losing fortunes by gambling on the changes in land values. Owing to the removal of taxation from the necessaries of life and from industry, consumers would get goods cheaper, and some stimulus would be given to production and employment. Those monopolies which derive their strength from land would become weaker and tend to disappear. We are assuming, what is not true to-day, that the land tax would provide sufficient public revenue.

On the other hand, there would be certain and serious disadvantages. A considerable number of land users might permit their holdings to deteriorate through careless cultivation. To be sure, they would not find this a profitable course if they intended to remain on the land perma-

[1] "Progress and Poverty," book viii, ch. ii.

nently; but they might prefer to exhaust the best qualities of a farm in a few years, and then retire, or go into some other business, or repeat the wearing-out process on other lands. Thus the community would suffer through the lowered productiveness of its land, and because of the lower rent that it would receive from all subsequent users of the deteriorated tracts. In the second place, the administrative machinery required to levy and collect the rent, and to apportion the different holdings among the competitive bidders, would inevitably involve a vast amount of error, inequality, favoritism, and corruption. For the land tax to be levied and collected would not be, as now, a fraction of the rental value, but the full amount of the annual rent. In the third place, cultivators would not have the inducement to make improvements which arises from the hope of selling both the improvements and the land at a profit, owing to the increased demand for the land. Perhaps the greatest disadvantage of the system would be the instability of tenure, with regard to both productive and residential lands. Owing to misfortunes of various kinds, for example, one or two bad crops, many cultivators would be temporarily unable to pay the full amount of the land tax or rent. It is scarcely conceivable that the State would remit the deficiency, or refuse to turn the land over to other persons on terms more advantageous to itself. Inasmuch as the value and rent of land would be continuously adjusted by competition, the more efficient and more wealthy would frequently supplant the less efficient and the less wealthy, even though the latter had occupied their holdings or their dwellings for a great number of years. Legal security of tenure, though theoretically the same as that enjoyed by the private owner to-day, would be much less effective practically. In this respect land users would be in almost as bad a case as renters are at present.[1]

Our conclusion, then, is that private landownership is

[1] Cf. Walker, "Land and Its Rent"; and Seligman, "Essays in Taxation."

certainly better than extreme Socialism, or any form of Socialism which does not concede to the land user all the control that he would have under the Single Tax system, and that it is very probably superior to the latter. In making this comparison and drawing this conclusion, we have in mind private ownership, not at its worst nor as it exists or has existed in any particular country, but private ownership in its essential elements, and with its capacity for modification and improvement. If we were to examine carefully the results of private ownership as it obtained in Ireland for several centuries before the enactment of the recent Land Purchase Act, we should probably be tempted to declare that the most extreme form of agrarian Socialism could scarcely have been productive of more individual and social injury. Certain other countries present almost equally unfavorable conditions of comparison. Failure to note this distinction between the historical and the potential aspects of private landownership has vitiated many otherwise excellent defenses of the institution. It has provoked the retort that almost any plausible change would be an improvement upon private ownership as it has existed in this or that country. But these are not the real alternatives. The practical choice is between private ownership as shown by experience and reason to be capable of improvement, and some untried system which is subject to grave defects, and which at its best would be probably inferior to modified private ownership. An attempt to describe some of these modifications and improvements will be made in a subsequent chapter. In the meantime we content ourselves with the statement that private land ownership is capable of becoming better than Socialism certainly, and probably better than the Single Tax system. Consequently it is justified not merely so long as neither of these schemes is introduced, but as an institution which the State would do well to maintain and improve.

CHAPTER V

PRIVATE LANDOWNERSHIP A NATURAL RIGHT

THE conclusions of the preceding chapter include the statement that individuals are morally justified in becoming and remaining landowners. May we take a further step and assert that private landownership is a natural right of the individual? If it is, the abolition of it by the State, even with compensation to the owners, would be an act of injustice. The doctrine of natural rights is so prominent in the arguments of both the advocates and the opponents of private landownership that it deserves specific treatment. Moreover, the claim that private landownership is a natural right rests upon precisely the same basis as the similar claim with regard to the individual ownership of capital; and the conclusions pertinent to the former will be equally applicable to the latter.

A natural right is a right derived from the nature of the individual, and existing for his welfare. Hence it differs from a civil right, which is derived from society or the State, and is intended for a social or civil purpose. Such, for example, is the right to vote, or the right to hold a public office. Since a natural right neither proceeds from nor is primarily designed for a civil end, it cannot be annulled, and it may not be ignored, by the State. For example: the right to life and the right to liberty are so sacred to the individual, so necessary to his welfare, that the State cannot rightfully kill an innocent man, nor punish him by a term in prison.

Three Principal Kinds of Natural Rights

Although natural rights are all equally valid, they differ

in regard to their basis and their urgency or importance. From this point of view we may profitably distinguish three principal types.

The first is exemplified in the right to live. The object of this right, life itself, is intrinsically good, good for its own sake, an end in itself. It is the end to which even civil society is a means. Since life is good intrinsically, the right to life is also valid intrinsically, and not because of consequences. Since there is no conceivable equivalent for life, the right to life is immediate and direct in all possible circumstances.

Among the natural rights of the second class, the most prominent are the right to marry, to enjoy personal freedom, and to own consumption-goods, such as food and clothing. The objects of these rights are not ends in themselves, but means to human welfare. Confining our attention to marriage, we see that membership in the conjugal union is an indispensable means to reasonable life and self-development in the majority of persons. The only conceivable substitutes are free love and celibacy. Of these the first is inadequate for any person, and the second is adequate only for a minority. Marriage is, therefore, *directly* and *per se* necessary for the majority of individuals; for the majority it is an *individual* necessity. If the State were to abolish marriage it would deprive the majority of an indispensable means of right and reasonable life. Consequently the majority have a *direct* natural right to the legal power of marrying.

In the case of the minority who do not need to marry, who can live as well or better as celibates, the legal opportunity of marriage is evidently not directly necessary. But it is necessary indirectly, inasmuch as the *power of choice* between marriage and celibacy is an individual necessity. No argument is required to show that the State could not decide this matter consistently with individual welfare or social peace. Whence it follows that even the minority who do not wish or do not need to marry, have a natural

right to embrace or reject the conjugal condition. In their case the right to marry is indirect, but inviolable.[1]

Private ownership of land belongs in a third class of natural rights. Inasmuch as it is not an intrinsic good, but merely a means to human welfare, it differs from life and resembles marriage. On the other hand, it is unlike marriage in that it is not *directly* necessary for any individual whatever.[2] The alternative to marriage, namely, celibacy, would not even under the best social administration enable the majority to lead right and reasonable lives. The alternative to private landownership (and to private ownership of capital as well), namely, some form of employment as wage receiver, salary receiver, or fee receiver enables the individual to attain all the vital ends of private ownership: food, clothing, shelter, security of livelihood and residence, and the means of mental, moral, and spiritual development. None of these vital ends or needs is essentially dependent upon private ownership of land; for millions of persons satisfy them every day without becoming landowners. Nor are they exceptions, as those who can get along without marriage are exceptions. The persons who live reasonable lives without owning land are average persons. What they do any other person could do if placed in the same circumstances. Therefore, private landownership is not directly necessary for any individual.

Private Landownership Indirectly Necessary

In our present industrial civilization, however, private landownership is *indirectly* necessary for the welfare of the individual. It is said to be indirectly necessary because it is necessary as a *social institution,* rather than as something immediately connected with individual needs as such. It is not, indeed, so necessary that society would promptly

[1] The marriage rights of criminals, degenerates, and other socially dangerous persons, are passed over here as not pertinent to the present discussion. For the same reason nothing is said of the perfectly valid social argument in favor of the individual right of marriage.

[2] Cf. Vermeersch, "Quaestiones de Justitia," no. 204.

go to pieces under any other form of land tenure. As we have seen in the last chapter, it is necessary in the sense that it is capable of promoting the welfare of the average person, of the majority of persons, to a much greater degree than State ownership. It is necessary for the same reason and in the same way as a civil police force. As the State is obliged to maintain a police force, so it is obliged to maintain a system of private landownership. As the citizen has a right to police protection, so he has a right to the social and economic advantages which are connected with the system of private ownership of land. These rights are natural, derived from the needs of the individual in society, not dependent upon the good pleasure of the city or the State. They are individual rights to the presence and benefits of these social institutions.

But man's rights in the matter of land tenure are more extensive than his rights with regard to a police force. They are not restricted to the presence and functioning of a social institution. Every citizen has a natural right to police protection, but no citizen has a natural right to become a policeman. The welfare of the citizen is sufficiently looked after when the members of the police are selected by the authorities of the city. On the contrary, his welfare would not be adequately safeguarded if the State were to decide who might and who might not become landowners. In the first place, the ideal condition is that in which *all* persons can easily become actual owners. In the second place, the mere legal opportunity of becoming owners is a considerable stimulus to the energy and ambition of all persons, even of those who are never able to convert it into an economic opportunity. Therefore, only a very powerful reason of social utility would justify the State in excluding any person or any class from the legal power to own land. No such reason exists; and there are many reasons why the State should not attempt anything of the sort. As a consequence of these facts, every person, whether an actual owner or not, has a natural right to ac-

quire property in land. This right is evidently a necessary condition of a fair and efficient system of private ownership, which is in turn a necessary condition of individual welfare. The right of private landownership is, therefore, an indirect right; but it is quite as valid and quite as certain as any other natural right.

Now this right is certainly valid as against complete Socialism, which includes State management and use, as well as State ownership. Is it valid against the Single Tax system, or against such modified forms of Socialism as would allow the individual to rent and use the land as an independent cultivator with security of tenure? Would the introduction of some such scheme in a country in which only a small minority of the population were actual owners, constitute a violation of individual rights? While we cannot with any feeling of certainty return an affirmative answer to these questions, we can confidently affirm that reform within the lines of private ownership would in the long run be more effective, and, therefore, that the right of private ownership is *probably* valid even against these modified forms of common ownership.[1]

The Doctrine of the Fathers and Theologians

Some of the Church Fathers, particularly Augustine, Ambrose, Basil, Chrysostom, and Jerome, denounced riches and the rich so severely that they have been accused of denying the right of private ownership. The facts, however, are that none of the passages upon which this accusa-

[1] The argument in the text is obviously empirical, drawn from consequences. There is, however, a putatively intrinsic or metaphysical argument which is sometimes urged against the justice of the Single Tax system. It runs thus: since the fruits of a thing belong to the owner of the thing, "res fructificat domino," rent, which is the economically imputed fruit of land, necessarily and as a matter of natural right should go to the owner of the land. As will be shown later, the formula at the basis of this contention is not a metaphysical principle at all, but a conclusion from experience. Like every other formula or principle of property rights, it must find its ultimate basis in human welfare.

tion is based proves it to be true, and that in numerous other passages all of these writers explicitly affirm that private ownership is lawful.[1] Speaking generally, we may say that they taught the moral goodness of private ownership without insisting upon its necessity. Hence they cannot be cited as authorities for the doctrine that the individual has a natural right to own land.

Some of the great theologians of mediæval and post-mediæval times denied this right, inasmuch as they denied that the institution of private ownership was imposed or commanded by the natural law. Among them are Scotus,[2] Molina,[3] Lessius,[4] Saurez,[5] Vasquez,[6] and Billuart.[7] Since private ownership is not absolutely necessary to human welfare in all forms of society, it cannot, in their view, be regarded as strictly prescribed by the natural law, nor be instituted without the positive action of civil authority, or the consent of the community. Nevertheless they all admit that it is much better than common ownership in contemporary societies. The difference between their position and that of de Lugo, for example, seems to be twofold: First, they put stronger emphasis upon the doctrines that the earth belongs to all men in common, that in the absence of original sin ownership would likewise have been common, and that this arrangement is therefore in a fundamental sense normal, agreeing with nature and the natural law; and, second, they put a lower estimate upon the superiority of private ownership even in contemporary conditions. In a word, they denied that private ownership was so much better than any alternative system as to confer upon the individual a natural right in

[1] Cf. Vermeersch, op. cit., no. 210; Ryan, "Alleged Socialism of the Church Fathers."
[2] "In IV Sent.," d. 15, q. 2, n. 5; and "Reportata parisiensia," d. 15, q. 4, n. 7-12.
[3] "De Justitia et Jure," tr. 2, d. 18 and 20.
[4] "De Justitia et Jure," c. 5, n. 3.
[5] "De Legibus," l. 2, c. 14, n. 13 and 16.
[6] "In Summa," 1ma 2ae, d. 157, n. 17.
[7] "De Justitia et Jure," d. 4, a. 1.

the strict sense; that is, a right which laid upon the State the correlative obligation of maintaining the institution of private landownership.

On the other hand, many of the ablest theologians of the same period declared that private ownership was enjoined by the natural law and right reason, and consequently that it was among the individual's natural rights. According to St. Thomas Aquinas, private property is "necessary for human life," and is one of those social institutions which are prescribed by the *jus gentium;* and the content of the *jus gentium* is not determined by positive law, but by the dictates of "natural reason," by "natural reason itself." [1] These statements seem to convey the doctrine of natural right as clearly as could be expected in the absence of an explicit declaration. Cardinal de Lugo sets forth the same teaching somewhat more compactly, but in substantially the same terms: "Speaking generally, a division of goods and of ownership-titles proceeds from the law of nature, for natural reason dictates such division as necessary in the present circumstances of fallen nature and dense population." [2] This view is to-day universally accepted among Catholic writers.

The Teaching of Pope Leo XIII

The official teaching of the Church on the subject is found in the Encyclical, "On the Condition of Labor," by Pope Leo XIII. In this document we are told that the proposals of the Socialists are "manifestly against justice"; that the right of private property in land is "granted to man by nature"; that it is derived "from nature, not from man, and the State has the right to control its use in the interest of the public good alone, but by no means to abolish it altogether." These statements the Pope deduces from a consideration of man's needs. Private property in land is necessary to satisfy the wants, present and future, of the

[1] "Summa Theologica," 2a 2ae, q. 57, a. 2 and 3.
[2] "De Justitia et Jure," d. 6, s. 1, n. 6.

individual and his family. Were the State to attempt the task of making this provision, it would exceed its proper sphere, and produce manifold domestic and social confusion.

While Pope Leo defines the natural right of private ownership as incompatible with complete Socialism, that is, collective use as well as collective ownership, his statements cannot fairly or certainly be interpreted as condemning the Single Tax system, or any other arrangement which would leave to the individual managerial use and secure possession of his holding, together with the power to transmit and transfer it, and full ownership of improvements. These are the only elements of ownership which the Holy Father defends, and which he insists upon as necessary. The one element of private ownership which the Single Tax system would exclude, namely, the power to take rent from and profit by the changes in land values, finds no place among the advantages of private ownership enumerated in the Encyclical.

There is, indeed, one passage of the Encyclical in which Pope Leo seems to allude to the Single Tax or to some similar proposal. He expresses his amazement at those persons who "assert that it is right for private persons to have the use of the soil and its various fruits, but that it is unjust for any one to possess outright either the land on which he has built, or the estate which he has brought under cultivation. But those who deny these rights do not perceive that they are defrauding man of what his own labor has produced. For the soil which is tilled and cultivated with toil and skill utterly changes its conditions: it was wild before, now it is fruitful; was barren, but now brings forth in abundance. That which has thus altered and improved the land becomes so truly a part of itself as to be in great measure indistinguishable and inseparable from it. Is it just that the fruit of a man's own labor should be possessed and enjoyed by any one else? As effects follow their cause, so is it just and right that the result of labor

should belong to those who have bestowed their labor."

In this passage we find two principal statements: first, that those persons are in error who declare full private ownership of land to be unjust; and, second, that it is wrong to deprive a man of the improvements which he makes in the soil. Now the first of these propositions does not touch the Single Tax system as such; it only condemns the assertion of Henry George that private ownership is essentially unjust. It is directed against one of the arguments for the system, not against the system itself. More specifically, it is a refutation of an argument against private landownership, rather than a positive attack upon any other system. It could be accepted by any Single Taxer who does not agree with Henry George that the present system is essentially unjust. The second proposition does not apply to the Single Tax system at all; for the latter would concede to the individual holder the full ownership and benefit of improvements; and it could easily be so administered as to protect him against injury in any case in which improvement values were not exactly and clearly distinguishable from land values. Any doubt which arose could be resolved in favor of the owner.

While Henry George opposed the doctrines of the Encyclical in his "Open Letter to Pope Leo XIII," all his arguments are directed against the proposition that private ownership is right and just. The "Letter" is an attack upon private ownership rather than a defense of the Single Tax. Apparently its author did not find that Pope Leo condemned any positive or essential element of the Single Tax as a proposed system of land tenure.

If the rejoinder be made that Pope Leo could have had no other group of persons in mind than the Single Taxers when he wrote the paragraph quoted above, our answer must be that he did not definitely identify them, either by naming them, as he named the Socialists, or by any other sufficiently explicit designation. Applying to this para-

graph the customary and recognized rules of interpretation, we are obliged to conclude that it does not contain an explicit condemnation of the Single Tax system.

To put the substance of this chapter in two sentences: Private landownership is a natural right because in present conditions the institution is necessary for individual and social welfare. The right is certainly valid as against complete Socialism, and probably valid as against any such radical modification of the present system as that contemplated by the thoroughgoing Single Taxers.

CHAPTER VI

LIMITATIONS OF THE LANDOWNER'S RIGHT TO RENT

THE chapters immediately preceding have led to the conclusion that private ownership is the best system of land tenure, and that the individual has a natural right to participate in its advantages. Although this system confers upon the individual owner the power to take the rent of the land, we are not logically debarred from raising the question whether this power is a necessary part of the moral rights of landownership. Does the right to own a piece of land necessarily include the right to take its rent? By what ethical principle of distribution is the landowner justified in appropriating a revenue in return for which he has performed no labor, nor made any sacrifice? This is unquestionably what happens when a man hires out his land to another. And in conditions of perfect competition, those owners who operate their own land are fully remunerated for their labor in the form of profits. Over and above this sum they receive rent, the payment that they could get from the land if they were to let its use to tenants. In the normal situation rent is a workless income. On what moral ground may it be taken by the landowner?

Inasmuch as the principles and pertinent facts involved in this question can be more effectively and more conveniently discussed in relation to interest than in relation to rent, the solution will be deferred to the chapters on interest. Assuming provisionally that the outcome of the discussion will be favorable to the claims of the landowner, let us inquire whether he always has a moral right to *all* the rent. The parallel question regarding the capi-

talist will be considered in connection with the right of the laborer to a living wage.

The Tenant's Right to a Decent Livelihood

The actual payments made by tenants to landowners sometimes leave the former without the means of decent living. Such had been the condition of a large part of the Irish tenant farmers before 1881, when the Land Courts were established. In the course of twenty-five years these courts reduced the rents by twenty per cent on the average in upwards of half a million cases. While a part of the reductions was intended to free the tenants from the unjust burden of paying rent on their own improvements, another part was undoubtedly ordered on the theory that the tenants were entitled to retain a larger share of the product for their own support. Yet the latter portion of the reduction apparently represented true economic rent, for it was included in the difference between the product and the current cost of production; it was included in the amount that men in Ireland were willing to pay for the use of land. It was a part of the surplus that they had left after defraying their expenditures for capital and labor. To be sure, the tenants in some other countries, say the United States, would not have been satisfied with such a small remuneration, and would not have handed over so much to the landlord; but if the concept of economic rent is to have any serviceable meaning it must be determined by the actual returns to capital and labor in each locality, and not by the standards of some other place which are assumed to be normal. In any case, the Irish Land Courts did reduce the rents below the level fixed by competition.

Was this treating the landlords justly? May a tenant ever retain a part of the rent which the free course of competition would yield to the landowner? Here we must distinguish between the tenant who is and the tenant who is not in possession of a holding sufficiently large to require

all the time and labor of a cultivator possessing average efficiency. The tenant who controls and cultivates less than this amount of land ought not to expect to get all his livelihood therefrom. Failure to do so would not necessarily mean that he was paying exorbitant rent. Holdings of this sort are rightly called "uneconomic"; that is, they are too small to permit a profitable and reasonable application of labor and capital. On such holdings the fair rent would be that amount per acre which would be regarded as fair for the use of the same land held in farms of "economic" size. The proper recourse for the occupiers of uneconomic holdings is to get control of more land, which is exactly what has been happening in Ireland through the action of the Congested Districts Board.

This brings us to the case of the man who cannot pay the competitive rent on a holding of normal size, and have sufficient left to provide himself and family with a decent livelihood. The fundamental reason why the rent is so high is to be found in the economic weakness of the great mass of the tenants, who can neither emigrate to another country nor get a better living as wage earners in their own. Their predicament is exactly the same as that of the helpless and unskilled laborers who are compelled by the force of competition to accept less than living wages. In these circumstances it seems clear that a government commission would be justified in reducing the rents to such a level as would leave the tenants of average efficiency on normal holdings the means of maintaining a decent standard of living. In such cases, then, the landowner has not a right to the full economic or competitive rent. His right thereto is morally inferior to the tenant's right to a decent livelihood, just as the capitalist-employer's right to the prevailing rate of interest is morally inferior to the laborer's right to a living wage. Neither in the one case nor in the other is mere competition the final determinant and measure of justice. It has no moral validity when it comes into conflict with man's natural right to get a reasonable liveli-

hood on reasonable conditions from the bounty of the earth. These fundamental questions will be discussed at length in the chapters on wages.

To the possible objection that the concept of a "normal" holding is vague, the sufficient reply is that in practice it can be estimated with as much definiteness as the concept of the "average" laborer. As we see from the history of the Irish Land Courts and their "Judicial Rents," it can be defined with sufficient accuracy to serve the ends of practical justice. More than this is not attained in any department of human relations.

The Laborer's Claim Upon the Rent

Should any part of the rent go to the laborer? Let us take first the case of the laborer who is employed by a tenant, and who is not occupied in personal service but in some productive task connected with the land. Like all other wage earners he has a right to a sufficient share of the product to afford him a decent livelihood. Since the tenant is the employer, the director of the business, and the owner of the product, he rather than the landowner is the person who is primarily charged with the obligation of providing the laborer with a living wage. As noted above, his own claim to a decent livelihood is morally superior to the landlord's claim to rent; but if, having taken this amount from the product, he finds himself unable to pay living wages to all his employees unless he deducts something either from the normal interest-return on his own capital or from the rent that would ordinarily go to the landowner, he is morally bound to choose the former course. He, not the landowner, is the wage payer. That he is obliged to provide living wages to his labor force even at the cost of interest on his own investment in the business, is a proposition that will receive ample discussion and defense in a later chapter.[1]

Suppose, however, that the tenant has not the means of

[1] Chapter xxii.

paying full living wages after turning into the wage fund all the money that he had hoped to retain as interest on his capital. May he withhold from the landowner a sufficient portion of the rent to cover the deficit in wages? Were this action practicable it would undoubtedly be justifiable; for the landowner's claim to rent is no stronger than the tenant-capitalist's claim to interest. As claims upon the product, both are morally weaker than the laborer's right to a living wage. Nevertheless, the tenant who should attempt to carry out this course would probably be prosecuted for nonfulfillment of his contract with the landowner, or would be evicted from the holding. Nor is the landowner obliged in such cases to give up the rent in order that a living wage may be paid to the tenant's labor force. He cannot be certain that the failure of the latter to receive full living wages has not been due to inefficiency or fraudulent conduct on the part of the tenant. Moreover, the landowner would be justified in seeking to protect himself against the recurrence of such situations by putting his land in charge of a more capable tenant, or by selling it and investing or lending the money elsewhere. However clear may be the abstract proposition that the claim to a living wage possessed by the employee of the tenant is superior to the claim to rent possessed by the landowner, the difficulty of realizing this right in practice is sufficient to relieve even conscientious proprietors from the obligation of giving up the rent for this purpose.

When the landowner is operating or cultivating his land himself, he is evidently obliged to pay a living wage to all his employees at the expense of rent, just as he is obliged to do so at the cost of interest on his artificial capital. To be sure, the first charge upon the product should be a decent livelihood for himself; but, when he has obtained this, the right of his employees to a living wage is morally superior to his right to either rent or interest.

At present the State takes a part of the rent through taxation. May it take a larger share without violating

justice? This question will be considered in the second chapter following. In the meantime, we shall examine the principal defects of the existing system of land tenure with a view to the suggestion of appropriate remedies, whether through taxation or otherwise.

CHAPTER VII

DEFECTS OF THE EXISTING LAND SYSTEM

STARTING from the principle that the rightness or wrongness of any system of land tenure is determined not by metaphysical and intrinsic considerations, but by the effects of the institution upon human welfare, we arrived at the conclusion that private landownership is not unjust, so long as no better system is available. By the same test of human welfare we found that it would be wrong to substitute a better system through the process of confiscating rent and the commercial value of land. A further step brought us to the conclusion that complete Socialism would certainly, and the complete Single Tax probably, be inferior to the present system. As a sort of corollary, the social and moral superiority of private landownership was stated in terms of natural rights. Finally, the question was raised whether the landowner has a right to take rent, and to take all the rent.

In stating the superiority of the present system, we explicitly noted that we had in mind the system as capable of improvement. This implied that there are defects in the present form of land tenure, and that these can be eliminated in such a way as to make the system more beneficial and more in harmony with the principles of justice. In the present chapter we shall give a summary review of the principal defects, and in the following chapter we shall suggest some methods of reform. All the defects and abuses may conveniently be grouped under three heads: Monopoly; Excessive Gains; and Exclusion from the Land.

Landownership and Monopoly

In the literature of the Single Tax movement the phrase, "land monopoly," is constantly recurring. The expression is inaccurate, for the system of individual landownership does not conform to the requirements of a monopoly. There is, indeed, a certain resemblance between the control exercised by the owner of land and that possessed by the monopolist. As the proprietor of every superior soil or site has an economic advantage over the owner of the poorest soil or site, so the proprietor of a monopolistic business obtains larger gains than the man who must operate in conditions of competition. In both cases the advantage is based upon scarcity and the extent of the advantage is measured by the degree of scarcity.

Nevertheless, there is an important difference between landownership and monopoly. The latter is usually defined as that degree of unified control which enables the persons in control arbitrarily to limit supply and raise price. As a rule, no such power is exercised by individuals, or by combinations of individuals, with regard to land. The pecuniary advantage possessed by the landowner, that is, the power to take rent, is conferred and determined by influences outside of himself, by the natural superiority of his land, or by its proximity to a city. He can neither diminish the amount of land in existence nor raise the price of his own. The former result is inhibited by nature; the latter by the competition of other persons who own the same kind of land. To be sure, there are certain kinds of land which are so scarce and so concentrated that they do fall under true monopolistic control. Such are the anthracite coal mines of Pennsylvania, and some peculiarly situated plots in a few great cities, for example, land that is desired for a railway terminal. But these instances are exceptional. The general fact is that the owners of any kind of land are in competition with similar owners. While the element of scarcity is common to landownership and to

monopoly, it differs in its operation. In the case of monopoly it is subject, within limits, to the human will. This difference is sufficiently important, both theoretically and practically, to forbid the identification or confusion of landownership with monopoly.

A notable illustration of such confusion is the volume by Dr. F. C. Howe, entitled, "Privilege and Democracy in America." He argues that bituminous coal, copper ore, and natural gas are true monopolies, but gives no adequate proof to support this assertion. Moreover, he exaggerates considerably the part played by landownership in the formation of industrial monopolies. Thus, his contention that the petroleum monopoly is due to ownership of oil-producing lands is certainly incorrect, for the Standard Oil Company (or companies) has never controlled so much as half the supply of raw material. "The power of the Standard does not rest upon a direct monopoly of the production of crude oil through ownership of the wells." [1] Perhaps the most remarkable misstatement in the volume is this: "The railway is a monopoly because of its identity with land." [2] Now there are a few important railway lines traversing routes or possessing terminal sites which are so much better than any alternative routes or sites as to give all the advantages of a true monopoly. But they are in a small minority. In the great majority of cases a second parallel strip or parallel site could be found which would be equally or almost equally suitable. Neither the amount nor the kind of land owned by a railroad, nor its legal privilege of holding land in a long, continuous strip, is the efficient cause of a railway monopoly. To attribute the monopoly to land is to confound a condition with a cause. One might as well say that the land underlying the "wheat king's" office is the cause of his corner in wheat. It is true that in a few of the great cities the exist-

[1] "Report of the Commissioner of Corporations on the Petroleum Industry," Part I, p. 8.
[2] P. 138.

ing railroads may, through their ownership of all the suitable terminal sites, prevent the entrance of a competing line. In the first place, such instances are rare; in the second place, the fact that there are several roads already in existence shows that competition was possible without the entrance of another one. The influence impelling them to form a monopoly for the regulation of charges is not their ownership of terminal sites. No sort of uniform action with regard to terminals would produce any such effect. The true source of the monopoly element in railways is inherent in the industry itself. It is the fact of "increasing returns," which means that each additional increment of business is more profitable than the preceding one, and that in most cases this process can be kept up indefinitely. As a consequence, each of two or more railroads between two points strives to get all the traffic; then follows unprofitable rate cutting, and finally combination.[1] The same forces would produce identical results if railroad tracks and terminals were suspended in the air. The law of increasing returns would still operate.

Dr. Howe asserts that the monopolistic character of such public utility corporations as street railways and telephone companies is due to their occupation of "favored sites."[2] How can this be true, when it is possible to build a competing line on an adjoining and parallel street? If the city forbids this, and gives an exclusive franchise to one company, this legal ordinance, and not any exceptional advantage in the nature of the land occupied, is the specific cause of the monopoly. If the city permits a competing line, and if the two lines sooner or later enter into a combination, the true source and explanation are to be found in the fact of increasing returns. Combination is immeasurably more profitable than cut-throat competition. Moreover, the evils of public service monopolies can be remedied through public con-

[1] Cf. Ely, "Monopolies and Trusts," pp. 59, sq.
[2] P. 133.

trol of charges and through taxation. Neither in railroads nor in public utilities is land an impelling cause or monopoly, or a serious hindrance to proper regulation.

Most of Dr. Howe's exaggerations of the influence of land upon monopoly take the form of suggestion rather than of specific and direct statement. When he attempts in precise language to enumerate the leading sources of monopoly, he mentions four, namely, land, railways, the tariff, and public service franchises. Nor is he able to prove his assertion that of these the most important is land.

Certain kinds of land are liable, in varying degrees, to become monopolies or to become an important source or contributory cause of monopoly. They are usually denominated "natural resources." Concerning some of these the Federal Trade Commission declares that the available data "indicate a distinct concentration of control in the hands of a few large companies. Six companies are shown as controlling about a third of the total developed water power; eight companies as controlling over three-quarters of the anthracite coal reserves; thirty companies as controlling over a third of the immediate bituminous coal reserves; two companies as controlling well over half of the iron ore reserves; four companies controlling nearly half of the copper reserves; and thirty companies controlling over twelve per cent of the petroleum reserves." [1]

The existence and menace of monopolies in the field of electric power were thus described by Governor Pinchot of Pennsylvania in his Message of Transmittal of the Report of the Giant Power Survey Board to the State Legislature: "No one who studies the electrical developments already achieved and those planned for the immediate future can doubt that a unified electrical monopoly extending into every part of this Nation is inevitable in the very near future. The question before us is not whether there shall be such a monopoly. That we cannot prevent. The

[1] "National Wealth and Income," Report of the Federal Trade Commission, 1926. p. 71.

question is whether we shall regulate it or whether it shall regulate us. . . . Nothing like this gigantic monopoly has ever appeared in the history of the world. Nothing has ever been imagined before that even remotely approaches it in the thoroughgoing, intimate, unceasing control it may exercise over the daily life of every human being within the web of its wires. It is immeasurably the greatest industrial fact of our time. If uncontrolled it will be a plague without previous example."

Speaking generally, we may say that when a great corporation controls a large proportion of the raw material required for its manufactures, such control will supplement and reinforce other factors which make for monopoly.[1]

Excessive Gains from Private Landownership

The second evil of private landownership to be considered here, is the general fact that it enables some men to take a larger share of the national product than is consistent with the welfare of their neighbors and of society as a whole. As in the matter of monopoly, however, so here, Single Tax advocates are chargeable with a certain amount of overstatement. They contend that the landowner's share of the national product is constantly increasing, that rent advances faster than interest or wages, nay, that all of the annual increase in the national product tends to be gathered in by the landowner, while wages and interest remain stationary, if they do not actually decline.[2]

The share of the product received by any of the four agents of production depends upon the relative scarcity of the corresponding factor. When undertaking ability becomes scarce in proportion to the supply of land, labor, and capital, there is a rise in the remuneration of the business man; when labor decreases relatively to undertaking ability, land, and capital, there is an increase in wages. Similar statements are true of the other two agents and

[1] Cf. Hobson, "The Industrial System," pp. 192-197.
[2] Cf. "Progress and Poverty," books iii and iv.

factors. All these propositions are merely particular illustrations of the general rule that the price of any commodity is immediately governed by the movement of supply and demand. Hence, it is not impossible that rent might increase to the extent described in the preceding paragraph. All that is necessary is that land should become sufficiently scarce, and the other factors sufficiently plentiful.

As a fact, the supply of land is strictly limited by nature, while the other factors can and do increase. There are, however, several forces which neutralize or retard the tendency of land to become scarce, and of rent to rise. Modern methods of transportation, of drainage, and of irrigation have greatly increased the supply of available land, and of commercially profitable land. During the nineteenth century, the transcontinental railroads of the United States made so much of our Western territory accessible that the value and rent of New England lands actually declined; and there are still many millions of acres throughout the country which can be made productive through drainage and irrigation. In the second place, every increase of what is called the "intensive use" of land gives employment to labor and capital which otherwise would have to go upon new land. In America this practice is only in its infancy. With its inevitable growth, both in agriculture and mining, the demand for additional land will be checked, and the rise in land values and rents will be correspondingly diminished. Finally, the proportion of capital and labor that is absorbed in the manufacturing, finishing and distributive operations of modern industry is constantly increasing. These processes call for very little land in comparison with that required for the extractive operations of agriculture and mining. An increase of one-fifth in the amount of capital and labor occupied in growing wheat or in taking out coal, implies a much greater demand for land than the same quantity employed in factories, stores and railroads.[1]

[1] Cf. Walker, "Land and Its Rent," pp. 168-182.

In 1915 Professor W. I. King estimated that the total national income increased from $2,250,000,000 to $30,500,000,000 between 1850 and 1910, or slightly more than fifteen times, while rent advanced from $170,600,000 to $2,673,000,000, or about fifteen and three quarters times. Hence the proportion of the national product going to the landowners was in 1910 an exceedingly small fraction greater than it had been sixty years earlier.[1] Between 1910 and 1922 the value of taxed real estate increased a little less than 61 per cent, while the value of all the wealth of the country increased 72 per cent.[2] Inasmuch as there is no good reason to assume that the land portion of real estate advanced more rapidly in value than the improvements portion, the upward movement of land values clearly lagged behind that of national wealth as a whole. From 1910 to 1920, the value of farm lands per acre, including improvements and equipment of all sorts, increased about 75 per cent. Since 1920, farm land value has undergone a considerable decline, and to-day is probably lower relatively than the value of our total wealth. We have no adequate reason to think that the proportion of the national income received by owners of land, as such, is greater to-day than it was seventy-five years ago.

As regards the future, there is every reason to expect a disproportionately great increase in the values and rent of certain kinds of land. All growing cities, especially those now having a population of more than 100,000, all water power sites, all anthracite coal lands, all timber lands, and all petroleum reserves, will not improbably experience a steady increase in land values. The value of agricultural land will, on the whole, increase much less rapidly. For this condition the main responsible factors are the improvements in farm machinery and in the agricultural arts generally. They bring about an increase in both the produc-

[1] "The Wealth and Income of the People of the United States," p. 158.

[2] Federal Trade Commission, op. cit., p. 50.

tiveness and the area of arable land, and a decrease in the prices of both the land and its products.

So much for the proportion of the national product which goes to landowners. What about the distribution of this share? Is it divided among a majority or a minority of the population? Is the proportion of the population that obtains some rent increasing or decreasing? Unfortunately no exact information is available for full answers to these questions. Between 1890 and 1920 the proportion of farm families owning farm land decreased from 65.9 per cent to 60.9, while the proportion of all families owning homes fell from 47.8 per cent to 37.4 per cent.

Nevertheless when we consider the amount of gains accruing to the average member of the landowning class, we do not find that it is unreasonably large. The great majority of landed proprietors have not received, nor are they likely to receive, from their holdings incomes sufficiently large to be called excessive shares of the national product. Their gross returns from land have not exceeded the equivalent of fair interest on their actual investment, and fair wages for their labor. The landowners who have been enabled through their holdings to rise above the level of moderate living constitute a comparatively small minority. And these statements are true of both agricultural and urban proprietors.

It is true that a considerable number of persons, absolutely speaking, have amassed great wealth out of land. It is a well-known fact that land was the principal source of the great mediæval and post-mediæval fortunes, down to the end of the eighteenth century. "The historical foundation of capitalism is rent." [1] Capitalism had its beginning in the revenue from agricultural lands, city sites, and mines. A conspicuous example is that of the great Fugger family of the sixteenth century, whose wealth was mostly derived from the ownership and exploitation

[1] Hobson, "The Evolution of Modern Capitalism," p. 4; London, 1907.

of rich mineral lands.[1] In the United States very few large fortunes have been obtained from agricultural land, but the same is not true of mineral lands, timber lands, or urban sites. "The growth of cities has, through real estate speculation and incremental income, made many of our millionaires." [2] "As with the unearned income of city land, our mineral resources have been conspicuously prolific producers of millionaires." [3] The most striking instance of great wealth derived from urban land is the fortune of the Astor family. While gains from trading ventures formed the beginning of the riches of the original Astor, John Jacob, these were "a comparatively insignificant portion of the great fortune which he transmitted to his descendents." [4] At his death in 1848, John Jacob Astor's real estate holdings in New York City were valued at eighteen or twenty million dollars. To-day the Astor estate in that city is estimated at between 450 and 500 millions, and within a quarter of a century will not improbably be worth one billion dollars.[5] According to an investigation made in 1892 by the *New York Tribune,* 26.4 per cent of the millionaire fortunes of the United States at that time were traceable to landownership, while 41.5 per cent were derived from competitive industries which were largely assisted by land possessions.[6]

Exclusion from the Land

One of the most frequent charges brought against the present system of land tenure is that it keeps a large proportion of our natural resources out of use. It is contended that this evil appears in three principal forms:

[1] *Harper's Monthly Magazine,* Jan., 1910.
[2] Watkins, "The Growth of Large Fortunes," p. 75; N. Y., 1907.
[3] Idem, p. 93.
[4] Youngman, "The Economic Causes of Great Fortunes," p. 45; N. Y., 1909.
[5] Howe, op. cit., pp. 125, 126.
[6] Cf. Commons, "The Distribution of Wealth," pp. 252, 257; N. Y., 1893.

owners of large estates refuse to break up their holdings by sale; many proprietors are unwilling to let the use of their land on reasonable terms; and a great deal of land is held at speculative prices, instead of at economic prices. So far as the United States are concerned, the first of these charges does not seem to represent a condition that is at all general. Although many holders of large mineral and timber tracts seem to be in no hurry to sell portions of their holdings, they are probably moved by a desire to obtain higher prices rather than to continue as large landowners. As a rule, the great landholders of America are without those sentiments of tradition, local attachment, and social ascendency which are so powerful in maintaining intact the immense estates of Great Britain. On the contrary, one of the common facts of to-day is the persistent effort carried on by railroads and other holders of large tracts to dispose of their land to settlers. While the price asked by these proprietors is frequently higher than that which corresponds to the present productiveness of the land, it is generally as low as that which is demanded by the owners of smaller parcels. To be sure, this is one way of unreasonably hindering access to the land, but it falls properly under the head of the third charge enumerated above. There is no sufficient evidence that the *large* landholders are exceptional offenders in refusing to sell their holdings to actual settlers.

The assertion that unused land cannot be rented on reasonable terms is in the main unfounded, so far as it refers to land which is desired for agriculture. As a rule, any man who wishes to cultivate a portion of such land can fulfill his desire if he is willing to pay a rent that corresponds to its productiveness. After all, landowners are neither fools nor fanatics: while awaiting a higher price than is now obtainable for their land, they would prefer to get from it some revenue rather than none at all. In so far as new land might profitably be improved and cultivated, and in so far as the owners are unwilling or unable to

provide the improvements, the present system does keep out of use agricultural land that could be cultivated by tenants. Mineral and timber lands are sometimes withheld from tenants because the owners wish to limit the supply of the product or because they fear that a long-term lease would prevent them from selling the land to the best advantage. As to urban sites, the contention that we are now examining is generally true. The practice of leasing land to persons who wish to build thereon does not, with the exception of a very few cities, obtain in the United States for other than very large business structures. As a rule, it does not apply to sites for residences. The man who wants a piece of urban land for a dwelling or for a moderately sized business building cannot obtain it except by purchase.

Cannot the land be bought at a reasonable price? This brings us to the third and most serious of the charges concerning exclusion from the land. Since the value of land in most cities is rising, and apparently will continue to rise more or less steadily, the price at which it is held and purchasable is not the economic price but a speculative price. It is higher than the capitalized value of the present revenue or rent. For example: if five per cent be the prevailing rate of interest, a piece of land which returns that rate on a capital of one thousand dollars cannot be bought for one thousand dollars. The purchaser is willing to pay more because he hopes to sell it for a still higher price within a reasonable time. He knows that he cannot immediately obtain five per cent on the amount (say, 1,200 dollars) that he is ready to pay for the land, but his valuation of it is not determined merely by its present income-producing power, but by its anticipated revenue value and selling value.[1] The buyer will pay more for such land

[1] "In a growing city an advantageous site will command a price more than in proportion to its present rent because it is expected that the rent will increase still further as the years go on." Taussig, "Principles of Economics," ii, 98; N. Y., 1911.

than for a house which yields the same return; for he knows that the latter will not, and hopes that the former will, bring a higher return and a higher price in the future. Wherever this discounting of the future obtains, the price of land is unreasonably high, and access to vacant land is unreasonably difficult.

This condition undoubtedly exists most of the time in the great majority of our larger cities. Men will not sell vacant land at a price which will enable the buyer to obtain immediately a reasonable return on his investment. They demand in addition a part of the anticipated increase in value. In the rural regions this evil appears to be smaller and less general. The owners of unused or uneconomically used arable land are more eager to sell their holdings than the average proprietor of a vacant lot. So far as this sort of land is concerned, it is probable that most of the denunciation of "land speculators" and "land monopolists" overshoots the mark. Not the high price at which unused arable lands are held, but the great initial cost of draining, clearing or irrigating them, is the main reason why they are not purchased by cultivators.

While no general and precise estimate can be given of the extent to which the speculative exceeds the actual rent-producing value of land in growing cities, twenty-five per cent would not improbably be a fair conjecture. Even when a reaction occurs after a period of excessive "land-booming," the lower prices do not bring the manless land any nearer to the landless men. Only the few who possess ready money or excellent credit can take advantage of such a situation. On the whole the evil that we are now considering is probably greater than any other connected with the private ownership of land.

All the tendencies and forces that have been described in the present chapter under the heads of Monopoly, Excessive Gains, and Exclusion from the Land, are in some degree real defects and abuses of the existing system of land tenure. Most of them do not seem to be sufficiently

understood or appreciated by the more ardent defenders of private ownership. To recognize them, and to seek adequate correctives of them would seem to be the task of both righteousness and expediency. In the next and final chapter of this Section, we shall consider certain remedies that seem to be at once effective and just.

CHAPTER VIII

METHODS OF REFORMING OUR LAND SYSTEM

In economic and social discussion the word reform is commonly opposed to the word revolution. It implies modification rather than abolition, gradual rather than violent change. Hence reforms of the system of land tenure do not include such radical proposals as those of land nationalization or the Single Tax. On the other hand, some extension of State ownership of land, and some increase in the proportion of taxes imposed upon land, may quite properly be placed under the head of reform, inasmuch as they are changes in, rather than a destruction of, the existing system.

In general, the reform measures needed are such as will meet the defects described in the last chapter; namely, Monopoly, Excessive Gains and Exclusion from the Land. Obviously they can be provided only by legislation; and they may all be included under ownership and taxation.

By far the greater part of the more valuable lands of the country are no longer under the ownership of the State. Urban land is practically all in the hands of private proprietors. While many millions of acres of land suitable for agriculture are still under public ownership, almost all of this area requires a considerable outlay for irrigation, clearing, and draining before it can become productive. Forty years ago, three-fourths of the timber now standing was public property; at present about four-fifths of it is owned by private persons or corporations.[1] The bulk of

[1] "Summary of Report of the Commissioner of Corporations on the Timber Industry in the United States," p. 3.

our mineral deposits, coal, copper, gold, silver, etc., have likewise fallen under private ownership, with the exception of those of Alaska. The undeveloped water power remaining under government ownership has been roughly estimated at fourteen million horse power in the national forests, and considerably less than that amount in other parts of the public domain.[1] This is a gratifying proportion of the whole supply, developed and undeveloped, of this national resource, which was estimated by the United States Geological Survey in 1924 at about 35 million horse power available 90 per cent of the time and an addition 20 million available 50 per cent of the time.

The Leasing System

In many countries of Europe it has long been the policy of governments to retain ownership of all lands containing timber, minerals, oil, natural gas, phosphate, and water power. The products of these lands are extracted and put upon the market through a leasing system. That is, the user of the land pays to the State a rental according to the amount and quality of raw material which he takes from the storehouse of nature. Theoretically, the State could sell such lands at prices that would bring in as much revenue as does the leasing system; practically, this result has never been attained. The principal advantages of the leasing arrangement are: to prevent the premature destruction of forests, the private monopolization of limited natural resources (which has happened in the case of the anthracite coal fields of Pennsylvania) and the private acquisition of exceptionally valuable land at ridiculously low prices; and to enable the State to secure just treatment for the consumer and the laborer by stipulating that the former shall obtain the product at fair prices, and that the latter shall receive fair wages.

Public grazing lands should remain government prop-

[1] "Report of the Commissioner of Corporations on Water Power Development in the United States," pp. 193-195.

erty until such time as they become available for agriculture. Cattle owners could lease the land from the State on equitable terms, and receive ample protection for money invested in improvements.

The leasing system cannot well be applied to agricultural lands. In order that they may be continuously improved and protected against deterioration, they must be owned by the cultivators. The temptation to wear out a piece of land quickly, and then move to another piece, and all the other obstacles that stand in the way of the Single Tax as applied to agricultural land, show that the government cannot with advantage assume the function of landlord in this domain. In the great majority of cases the State would do better to sell the land in small parcels to genuine settlers. There are, indeed, many situations, especially in connection with government projects of irrigation, clearing and drainage, in which the leasing arrangement could be adopted temporarily. It should not be continued longer than is necessary to enable the tenants to become owners.

Public Ownership of Urban Land

No city should part with the ownership of any land that it now possesses. Since capitalists are willing to erect costly buildings on sites leased from private owners, there is no good reason why any one should refuse to put up or purchase any sort of structure on land owned by the municipality. The situation differs from that presented by agricultural land, for the value of the land can easily be distinguished from that of improvements, the owner of the latter can sell them even if he is not the owner of the land, and he cannot be deprived of them without full compensation. While the lessee paid his annual rent his control of the land would be as complete and certain as that of the landowner who continues to pay his taxes. On the other hand, the leaseholder could not permit or cause the land to deteriorate if he would; for the nature of the land renders this impossible. Finally, the official activities involved in

the collection of the rent and the periodical revaluation of the land, would not differ essentially from those now required to make assessments and gather taxes.

The benefits of this system would be great and manifest. Persons who were unable to own a home because of their inability to purchase land, could get secure possession of the necessary land through a lease from the city. Instead of spending all their lives in rented houses, thousands upon thousands of families could become the owners and occupiers of homes. The greater the amount of land thus owned and leased by the city, the less would be the power of private owners to hold land for exorbitant prices. Competition with the city would compel them to sell the land at its revenue-producing value instead of at its speculative value. Finally, the city would obtain the benefit of every increase in the value of its land by means of periodical revaluation, and periodical readjustment of rent.

Unfortunately the amount of municipal land available for such an arrangement in our American cities is negligible. If they are to establish the system they must first purchase the land from private owners. Undoubtedly this ought to be done by all large cities in which the housing problem has become acute, and the value of land is constantly rising. This policy has been adopted with happy results by many of the municipalities of France and Germany.[1] At the state election of 1915 the voters of Massachusetts adopted by an overwhelming majority a constitutional amendment authorizing the cities of the commonwealth to acquire land for prospective home builders. In Savannah, Georgia, no extension of the municipal limits is made until the land to be embraced has passed into the ownership of the city. Another method is to refrain from opening a new street in a suburban district until the city has become the proprietor of the abutting land. Whatever be the particular means adopted, the objects of municipal purchase and ownership of land are definite and obvious: to

[1] C. F. Marsh, "Land Value Taxation in American Cities," p. 95.

check the congestion of population in the great urban centers, to provide homes for the homeless, and to secure for the whole community the socially occasioned increases in land values. Indeed, it is probable that no comprehensive scheme of housing reform can be realized without a considerable amount of land purchase by the municipalities. Cities must be in a position to provide sites for those home builders who cannot obtain land on fair conditions from private proprietors.[1]

Turning now from the direct method of public ownership to the indirect method of reform through taxation, we reject the thoroughgoing proposals of the Single Taxers. To appropriate all economic rent for the public treasury would be to transfer all the value of land without compensation from the private owner to the State. For example: a piece of land that brought to the owner an annual revenue of one hundred dollars would be taxed exactly that amount; if the prevailing rate of interest were five per cent the proprietor would be deprived of wealth to the amount of two thousand dollars, for the value of all productive goods is determined by the revenue that they yield, and benefits the person who receives the revenue. Thus the State would become the beneficiary and the virtual owner of the land. Inasmuch as we do not admit that the so-called social creation of land values gives the State a moral right to these values, we must regard the complete appropriation of economic rent through taxation as an act of pure and simple confiscation.

Appropriating Future Increases of Land Value

Let us examine, then, the milder suggestion of John Stuart Mill, that the State should impose a tax upon land sufficient to absorb all future increases in its value.[2] This

[1] Municipal purchase and ownership of land has been advocated by such a conservative authority as the Rev. Heinrich Pesch, S. J. "Lehrbuch der Nationaloekonomie," I, 203.

[2] "Principles of Political Economy," book v, ch. 2, sec. v.

scheme is commonly known as the appropriation of future unearned increment. Either in whole or in part it is at least plausible, and is to-day within the range of practical discussion. It is expected to obtain for the whole community all future increases in land values, and to wipe out the speculative, as distinguished from the revenue-producing value of land. Consequently it would make land cheaper and more accessible than would be the case if the present system of land taxation were continued. Before discussing its moral character, let us see briefly whether the ends that it seeks may properly be sought by the method of taxation. For these ends are mainly social rather than fiscal.

To use the taxing power for a social purpose is neither unusual nor unreasonable. "All governments," says Professor Seligman, "have allowed social considerations in the wider sense to influence their revenue policy. The whole system of protective duties has been framed not merely with reference to revenue considerations, but in order to produce results which should directly affect social and national prosperity. Taxes on luxuries have often been mere sumptuary laws designed as much to check consumption as to yield revenue. Excise taxes have as frequently been levied from a wide social, as from a narrow fiscal, standpoint. From the very beginning of all tax systems these social reasons have often been present." [1] Our Federal taxes on imports, on oleomargarine, and on white phosphorus matches, and many of the license taxes in our municipalities, as on peddlers and dog owners, are in large part intended to meet social as well as fiscal ends. They are in the interest of domestic production, public health and public safety. The reasonableness of effecting social reforms through taxation cannot be seriously questioned. While the maintenance of government is the primary object of taxation, its ultimate end, the ultimate end of government itself, is the welfare of the people. Now if the public welfare can be promoted by certain social changes, and if

[1] "Progressive Taxation in Theory and Practice," 1908, p. 130.

these in turn can be effected through taxation, this use of the taxing power will be quite as normal and legitimate as though it were employed for the upkeep of government. Hence the morality of taxing land for purposes of social reform will depend upon the tax that is imposed.

Some Objections to the Increment Tax

The tax that we are now considering can be condemned as unjust on only two possible grounds; first, that it would be injurious to society; and, second, that it would wrong the private landowner. If it were fairly adjusted and efficiently administered it could not prove harmful to the community. In the first place, landowners could not shift the tax to the consumer. All the authorities on the subject admit that taxes on land stay where they are put, and are paid by those upon whom they are levied in the first instance.[1] The only way in which the owners of a commodity can shift a tax to the users or consumers of it, is by limiting the supply until the price rises sufficiently to cover the tax. By the simple device of refusing to erect more buildings until those in existence have become scarce enough to command an increase in rent equivalent to the new tax, the actual and prospective owners of buildings can pass the tax on to the tenants thereof. By refusing to put their money into, say, shoe factories, investors can limit the supply of shoes until any new tax on this commodity is shifted upon the wearers of shoes in the form of higher prices. Until these rises take place in the rent of buildings and the price of shoes, investors will put their money into enterprises which are not burdened with equivalent taxes. But nothing of this sort can follow the imposition of a new tax upon land. The supply of land is fixed, and cannot be affected by any action of landowners or would-be landowners. The users of land and the consumers of its products are at present paying all that competition can compel them

[1] Cf. Taussig, "Principles of Economics," II, 516: Seligman, "The Shifting and Incidence of Taxation," p. 223.

to pay. They would not pay more merely because they were requested to do so by landowners who were laboring under the burden of a new tax. If all landowners were to carry out an agreement to refrain from producing, and to withhold their land from others until rents and prices had gone up sufficiently to offset the tax, they could, indeed, shift the latter to the renters of land and the consumers of its products. Such a monopoly, however, is not within the range of practical achievement. In its absence, individual landowners are not likely to withhold land nor to discontinue production in sufficient numbers to raise rents or prices. Indeed, the tendency will be all the other way; for all landowners, including the proprietors of land now vacant, will be anxious to put their land to the best use in order to have the means of paying the tax. Owing to this increased production, and the increased willingness to sell and let land, rents and prices must fall. It is axiomatic that new taxes upon land always make it cheaper than it would have been otherwise, and are beneficial to the community as against the present owners.

In the second place, the tax in question could not injure the community on account of discouraging investment in land. Once men could no longer hope to sell land at an advance in price, they would not seek it to the extent that they now do as a field of investment. For the same reason many of the present owners would sell their holdings sooner than they would have sold them if the tax had not been levied. From the viewpoint of the public the outcome of this situation would be wholly good. Land would be cheaper and more easy of access to all who desired to buy or use it for the sake of production, rather than for the sake of speculation. Investments in land which have as their main object a rise in value are an injury rather than a benefit to the community; for they do not increase the products of land, while they do advance its price, thereby keeping it out of use. Hence the State should discourage instead of encouraging mere speculators in land. Whether

it is or is not bought and sold, the supply of land remains the same. The supreme interest of the community is that it should be put to use and made to supply the wants of the people. Consequently the only land investments that help the community are those that tend to make the land productive. Under a tax on future increases in value, such investments would increase for the simple reason that land would be cheaper than it would have been without the tax. Men who desired land for the sake of its rent or its product would continue as now to pay such prices for it as would enable them to obtain the prevailing rate of interest on their investment after all charges, including taxes, had been paid. Men who wanted to rent land would continue as now to get it at a rental that would give them the usual return for their capital and labor.

So much for the effect of the tax upon the community. Would it not, however, be unjust to the landowners? Does not private ownership of its very nature demand that increases in the value of the property should go to the owners thereof? "Res fructificat domino:" a thing fructifies to its owner; and value-increases are a kind of fruit.

In the first place, this formula was originally a dictum of the civil law merely, the law of the Roman Empire. It was a legal rather than an ethical maxim. Whatever validity it has in morals must be established on moral grounds, by moral arguments. It cannot forthwith be assumed to be morally sound on the mere authority of legal usage. In the second place, it was for a long time applied only to natural products, to the grain grown in a field, to the offspring of domestic animals. It simply enunciated the policy of the law to defend the owner of the land in his claim to such fruits, as against any outsider who should attempt to set up an adverse title through mere appropriation or possession. Thus far, the formula was evidently in conformity with reason and justice. Later on it was extended, both by lawyers and moralists, to cover commercial "fruits," such as rent from lands and houses

and interest from loans and investments. Its validity in this field will be examined in connection with the justification of interest. More recently the maxim has received the still wider application which we are now considering. Obviously increases in value are quite a different thing from the concrete fruit of the land, its natural product. A right to the latter does not necessarily and forthwith imply a right to the former. In the third place, the formula in question is not a self evident, fundamental principle. It is merely a summary conclusion drawn from the consideration of the facts and principles of social and industrial life. Consequently its validity as applied to any particular situation will depend on the correctness of these premises, and on the soundness of the reasoning process.

The increment tax is sometimes opposed on the ground that it is new, in fact, revolutionary. In some degree the charge is true, but the conditions which the proposal is intended to meet are likewise of recent origin. The case for this legislation rests mainly on the fact that, for the first time in the world's history, land values everywhere show an unmistakable tendency to advance indefinitely. This means that the landowning minority will be in a position to reap unbought and continuous benefits at the expense of the landless majority. This new fact, with its very important significance for human welfare, may well require a new limitation on the right of property in land.

It is also objected that to deprive men of the opportunity of profiting by changes in the value of their land would be an unfair discrimination against one class of proprietors. But there are good reasons for making the distinction. Except in the case of monopoly, increases in the value of goods other than land are almost always due to expenditures of labor or money upon the goods themselves. The value increases that can be specifically traced to external and social influences are intermittent, uncertain and temporary. Houses, furniture, machinery and

every other important category of artificial goods are perishable, and decline steadily in value. Land, however, is substantially imperishable, becomes steadily scarcer relatively to the demand, and its value-increases are on the whole constant, certain, and permanent. Moreover, it is the settled policy of most enlightened governments to appropriate or to prevent all notable increases in the value of monopolistic goods, either through special taxation or through regulation of prices and charges. Taking the increment values of land is, therefore, not so discriminative as it appears at first glance.[1]

Another objection is that the proposal would violate the canons of just taxation, since it would impose a specially heavy burden upon one form of property. The general

[1] The "discrimination" objection is put in a somewhat different form by the Rev. Sydney F. Smith, S. J., in an article in *The Month*, Sept., 1909, entitled "The Theory of Unearned Increment." His argument is in substance that if the people of a city can claim the increases in land values which their presence and activity have occasioned, the purchasers of food, clothes, books, or concert tickets are equally justified in claiming that, "having added to the value of the shops and music halls, they had acquired a co-proprietary right in the increased value of the owners' stock, and the owners' premises." While this argument is specifically directed against those who maintain that the "social production" of values confers a right thereto, it affects to some extent our thesis that there is a vast difference between value-increases in land and in other goods. Father Smith seems to confuse the origination of value with the increase of value. The presence of consumers is an obvious prerequisite to the existence of any value at all in any kind of goods, but labor and financial outlay on the part of the producers of the goods are an equally indispensable prerequisite. The reason why the value is appropriated by the latter rather than the former is that this is clearly the only rational method of distribution. What we are concerned with here, however, is not this initial or cost-of-production-value of artificial goods, but the *increases* in value above this level which are brought about by external and social influences. Theoretically, the State could as reasonably take these as the increases in the value of land; practically, such a performance is out of the question, for the simple reason that such increases are spasmodic and exceptional. If Father Smith thinks that "food or clothes, or books, or concert tickets" regularly advance above the cost-of-production-value, he is simply mistaken. Since these and other artificial goods bring to their owners as a rule no socially occasioned increments of value, they and their owners are in quite a different situation from land and the owners of land.

doctrine of justice in taxation which is held by substantially all economists to-day, and which has been taught by Catholic moralists for centuries, is that known as the "faculty" theory.[1] Men should be taxed in proportion to their ability to pay, not in accordance with the benefits that they may be assumed to receive from the State. And it is universally recognized that the proper measure of "ability" is not a man's total possessions, productive and unproductive, but his income, his annual revenue. Now, the increment tax does seem to violate the rule of taxation according to ability, inasmuch as it would take all of one species of revenue, while all other incomes and properties pay only a certain percentage.

All the adherents of the faculty theory maintain, however, that it is subject to certain modifications. Incomes from interest, rent, and socially occasioned increases in the value of property should be taxed at a higher rate than incomes that represent expenditures of labor; for to give up a certain per cent of the former involves less sacrifice than to give up the same per cent of the latter. Therefore, increments of land-value may be fairly taxed at a higher rate than salaries, personal property, or even rent and interest. When, however, the law absorbs the whole of the value increments, it seems to be something more than a tax. The essential nature of a tax is to take only a portion of the particular class of income or property upon which it is imposed. The nearest approach to the plan of taking all future increases in land value is to be found in the special assessments that are levied in many American cities. Thus, the owners of urban lots are frequently compelled to defray the entire cost of street improvements on the theory that their land is thereby and

[1] Cf. Seligman, "Progressive Taxation in Theory and Practice," part II, chs. ii and iii; also the classic refutation of the "benefit" theory by John Stuart Mill in "Principles of Political Economy," book v, ch. ii, sec. 2. The traditional Catholic teaching on the subject is compactly stated by Cardinal de Lugo in "De Justitia et Jure," disp. 36; cf. Devas, "Political Economy," p. 594, 2d ed.

to that extent increased in value. In such cases the contribution is levied not on the basis of the faculty theory, but on that of the benefit theory; that is, the owners are required to pay in proportion to benefits received. All adherents of the faculty theory admit that the benefit theory is justifiably applied in situations of this kind. It might be argued that the latter theory can also be fairly applied to increments of land value that are to arise in the future. In both cases the owner returns to the State the equivalent of benefits which have cost him nothing. There is, however, a difference. In the former case the value increases are specifically due to expenditures made by the State, while in the latter they are indirectly brought about by the general activities of the community. We do not admit with the Single Taxers that this "social production" of value increments creates a right thereto on the part of either the community or the civil body; but even if we did we should be compelled to admit that the two situations are not exactly parallel; for the social production of increases in the value of land involves no special expenditure of labor or money. Hence it is very questionable whether the appropriation of the whole of the future value increments can be harmonized with the received conceptions of the canons of taxation.

The Morality of the Proposal

However, it is neither necessary nor desirable to justify the proposal on the mere ground of taxation. Only in form and administration is it a tax; primarily and in essence it is a method of distribution. It resembles the action by which the State takes possession of a newly discovered territory by the title of first occupancy. The future increases of land value may be regarded as a sort of no man's property which the State appropriates for the benefit of the community. And the morality of this proceeding must be determined by the same criterion that is applied to every other method or rule of distribution;

namely, social and individual consequences. No principle, title or practice of ownership, nor any canon of taxation, has intrinsic or metaphysical value. All are to be evaluated with reference to human welfare. Since the right of property is not an end in itself, but only a means of human welfare, its just prerogatives and limitations are determined by their conduciveness to the welfare of human beings. By human welfare is meant not merely the good of society as a whole, but the good of all individuals and classes of individuals. For society is made up of individuals, all of whom are of equal worth and importance, and have equal claims to consideration in the matter of livelihood, material goods, and property. In general, then, any method of distribution, any modification of property rights, any form of taxation, is morally lawful which promotes the interests of the whole community without causing undue inconvenience to any individual. Whether a given rule of ownership or method of distribution which is evidently conducive to the public good is, nevertheless, unduly severe on a certain class of individuals, is a question that is not always easily answered. Some of the methods and practices appearing in history were clearly fair and just, others clearly unfair and unjust, and still others of doubtful morality. Frequently the State has compelled private persons to give up their land at a lower price than they paid for it; in more than one country freebooters and kingly favorites robbed the people of the land, yet their heirs and successors are recognized by both moralists and statesmen as the legitimate owners of that land; in Ireland stubborn landlords have been compelled by the British government to sell their holdings to the tenants at an appraised valuation; in many countries men may become owners of their neighbors' lands by the title of prescription, without the payment of a cent of compensation. All these practices and titles inflict considerable hardship upon individuals, but most of them are held to be justified on grounds of social welfare.

Now the public appropriation of all future increments of land value would evidently be beneficial to the community as a whole. It would enable all the people to profit by gains that now go to a minority, and it would enable the landless majority to acquire land more easily and more cheaply. We have in mind, of course, only those value increases that are not due to improvements in or on the land, and we assume that these could be distinguished in practice from the increments of value that represent improvements. Would the measure in question inflict undue hardship upon individuals? Here we must make a distinction between those persons who own land at the time that, and those who buy land after, the law is enacted.

The only inconvenience falling upon the latter class would be deprivation of the power to obtain future increases in value. The law would not cause the value of the land to decline below their purchase price. Other forces might, indeed, bring about such a result; but, as a rule, such depreciation would be relatively insignificant, for the simple reason that it would already have been "discounted" in the reduction of value which followed the law at the outset. The very knowledge that they could not hope to profit by future increases in the value of the land would impel purchasers to lower their price accordingly. While taking away the possibility of gaining, the law enables the buyers to take the ordinary precautions against losing. Therefore, it does not, as sometimes objected, lessen the so called "gambler's chances." On the other hand, the tax does not deprive the owners of any value that they may add to the land through the expenditure of labor or money, nor in any way discourage productive effort. Now it is, as a rule, better for individuals as well as for society that men's incomes should represent labor, expenditure, and saving instead of being the result of "windfalls," or other fortuitous and conjunctural circumstances. And the power to take future value increments is not an intrinsically essential element of private property in land.

Like every other condition of ownership, its morality is determined by its effects upon human welfare. But we have seen in the last paragraph that human welfare in the sense of the social good is better promoted by a system of landownership which does not include this element; and we have just shown that such a system causes no undue hardship to the individual who buys land subsequently.

Such is the answer to the contention, noticed a few pages back, that the landowner has a right to future increments of value because they are a kind of fruit of his property. It is more reasonable that he should not enjoy this particular and peculiar "fruit." Were the increment tax introduced into a new community before any one had purchased land, it would clearly be a fair and valid limitation on the right of ownership. Those who should become owners after the regulation went into effect in an old community would be in exactly the same moral and economic position. Finally, there exists some kind of legal precedent for the proposal in the present policy of efficient governments with regard to the only important increases that occur in the value of goods other than land; namely, increases due to the possession of monopoly power. By various devices these are either prevented or appropriated by the State.

Those persons who are landowners when the increment tax goes into effect are in a very different situation from those that we have just been considering. Many of them would undoubtedly suffer injury through the operation of the measure, inasmuch as their land would reach and maintain a level of value below the price that they had paid for it. The immediate effect of the increment tax would be a decline in the value of all land, caused by men's increased desire to sell and decreased desire to buy. In all growing communities a part of the present value of land is speculative; that is, it is due to demand for the land by persons who want it mainly to sell at an expected rise, and also to the disinclination of present owners to sell until this expecta-

tion is realized. The practical result of the attitude of these two classes of persons is that the demand for, and therefore the value of land is considerably enhanced. Let a law be enacted depriving them of all hope of securing the anticipated increases in value, and the one group will cease to buy, while the other will hasten to sell, thus causing a decline in demand relatively to supply, and therefore a decline in value and price.

All persons who had paid more for their land than the value which it came to have as a result of the increment tax law, would lose the difference. For, no matter how much the land might rise in value subsequently, the increase would all be taken by the State. And all owners of vacant land the value of which after the law was passed did not remain sufficiently high to provide accumulated interest on the purchase price, would also lose accordingly. To be sure, both these kinds of losses would exist even if the law should cause no decline in the value of land, but they would not be so great either in number or in volume.

Landowners who should suffer either of these sorts of losses in consequence of a tax appropriating future value increases, would have a valid moral claim against the State for compensation. Through its silence on the subject of increment-tax legislation, the State virtually promised them at the time of their purchases that it would not thus interfere with the ordinary course of values. Had it given any intimation that it would enact such a law at a future time, these persons would not have paid as much for their land as they actually did pay. When the State passes the law, it violates its implicit promise, and consequently is under obligation to make good the losses.

In the foregoing pages we have been considering a law which would from the beginning of its operation take *all* the future increments of land value. There is, however, no likelihood that any such measure will soon be enacted in any country, least of all in the United States. What we shall probably see is the spread of legislation designed

to take a part, and a gradually growing part, of value increases, after the example of Germany.

The German Increment Taxes

The first increment tax (Werthzuwachssteuer) was established in the year 1898 in the German colony of Kiautschou, China, In 1904 the principle of the tax was adopted by Frankfort-am-Main, and in 1905 by Cologne. By April, 1910, it had already been enacted in 457 cities and towns of Germany, some twenty of which had a population of more than 100,000 each, in 652 communes, several districts, one principality, and one grand duchy. In 1911 it was inserted in the imperial fiscal system, and thus extended over the whole German Empire. While these laws are all alike in certain essentials, they vary greatly in details. They agreed in taking only a per cent of the value increases, and in imposing a higher rate on the more rapid increases. The rates of the imperial law varied from ten per cent on increases of ten per cent or less to thirty per cent on increases of 290 per cent or over. In Dortmund the scale progressed from one to 12½ per cent. Inasmuch as the highest rate in the imperial law was 30 per cent, and in any municipal law (Cologne and Frankfort) 25 per cent; inasmuch as all the laws allowed deductions from the tax to cover the interest that was not obtained while the land was unproductive; and inasmuch as only those increases were taxed which were measured from the value that the land had when it came into the possession of the present owner,—it is clear that landowners were not obliged to undergo any positive loss, and that they were permitted to retain the lion's share of the "unearned increment." [1]

[1] Cf. Fallon, "Les Plus-Values et l' Impot," pp. 455, sq.; Paris, 1914; Fillebrown, "A Single Tax Handbook for 1913"; Boston, 1912; Marsh, "Taxation of Land Values in American Cities," pp. 90-92; New York, 1911; "The Quarterly Journal of Economics," vols. 22, 24, 25; "The Single Tax Review," March-April, 1912; "Stimmen aus Maria-Laach," Oct., 1907.

It is to be noted that most of the German laws were retroactive, since they applied not merely to future value increases, but to some of those that occurred before the law was enacted. Thus, the Hamburg ordinance measured the increases from the last sale, no matter how long ago that transaction took place. The imperial law used the same starting point, except in cases where the last sale occurred before 1885. Accordingly, a man who had in 1880 paid 2500 marks for a piece of land which in 1885 was worth only 2000 marks, and who sold it for 3000 marks after the law went into effect, would pay the increment tax on 1000 marks,—unless he could prove that his purchase price was 2500 marks. In all such cases the burden of proof was on the owner to show that the value of the land in 1885 was lower than when he had bought it at the earlier date. Obviously this retroactive feature of the German legislation inflicted no wrong on the owner, since it did not touch value increases that he had paid for. Indeed, the value of the land when it came into the present owner's possession seems to be a fairer and more easily ascertained basis from which to reckon increases than any date subsequent to the enactment of the law. On the one hand, persons whose lands had fallen in value during their ownership would be automatically excluded from the operation of the law until such time as the acquisition value was again reached; on the other hand, those owners whose lands had increased in value before the law went into effect would be taxed as well as those whose gains began after that event; thus the law would reach a greater proportion of the existing beneficiaries of "unearned increment." Moreover, it would bring in a larger amount of revenue.

Transferring Other Taxes to Land

Another method of land reform by taxation consists in exceptionally high levies on the *present* value of land. As a rule, these imply a transfer of taxes from other forms of property. According to the usual practice, buildings

and other improvements and sometimes certain forms of personal property, are partially or wholely exempted from taxation. Generally the process is gradual, extending over five, ten or fifteen years. The method has been adopted in varying but moderate degrees, and with varying results in Canada, Australia, and in our own cities of Scranton and Pittsburgh.

Suppose this plan were applied in thoroughgoing fashion to the United States. It would mean that all tariff dues, all internal revenue levies, all taxes on incomes, inheritances, business operations, and general and special property would be abolished. All the revenue now obtained from these sources would be sought from taxes on land. What would be the result of this experiment?

In 1922 the total revenue collected by all our governmental divisions was $7,425,045,000.[1] The total value of land subject to taxation the same year was $100,617,000,000.[2] Dividing the former sum by the latter, we get 7.38 per cent, as the rate necessary to produce the required revenue from land alone. This tax rate is considerably in excess of the average interest rate received by landowners. It could not have been collected, and a persistent attempt to collect it would have meant outright confiscation. Hence the Single Tax in full measure is fiscally and ethically impossible.

Let us now suppose a milder application of the plan. All federal revenues continue to be derived from other sources than land, and all state, county and city taxes are unchanged, with the single exception of the general property tax. In other words, all the following taxes remain as they are: all federal taxes, all special taxes, and all taxes on licenses, business, incomes and inheritances. The whole of the general property tax, that is, all levies on improvements and on personal property, is shifted to land. In 1922 the revenue obtained from these sources was $3,324,-

[1] Dept. of Commerce, "Report on Taxes Collected," p. 2.
[2] Federal Trade Commission, "National Wealth and Income," p. 34.

484,000. Had this sum been derived from land alone ($100,617,000,000) it would have meant a tax rate of 3.3 per cent. In all probability the greater part of the agricultural land of the country did not return to its owners that rate of interest in the year 1922. How much would a rate of 3.3 per cent exceed the present rate on land? In 1922 the average rate of the general property tax was 2.81 per cent. on the assessed valuation of $92,369,378,000.[1] This was equivalent to 1.38 per cent on the true value ($188,052,000,000). A rate of 3.3 per cent would, therefore, be 2.4 times the present tax rate on land, or almost two per cent additional.

How much would this increase in the tax rate cause the value of land to fall? Two per cent added to the tax rate would mean two dollars subtracted from the revenues derived from every one hundred dollars worth of land. Capitalized at five per cent (which is probably more than the average return yielded by land to its owners) this would indicate a decline of forty per cent in land value. The situation may be illustrated thus; Brown owns an acre of land which, after taxes and all other expenses are paid, brings him five dollars annual interest. On a five per cent basis, this acre is worth one hundred dollars. Smith, who is seeking a five per cent investment in land, will pay that sum. Let the tax rate be increased by two per cent and the net return will be only three dollars. Smith will now pay but sixty dollars for this acre; for at that price his investment will yield him only five per cent.

A reduction of two-fifths in the value of land would be socially and morally unjustifiable. Therefore the proposal to concentrate all the general property taxes on land is at the present time indefensible as well as impracticable.

Let us consider a still milder application of the transfer plan. The personal property portion of the general prop-

[1] Dept. of Commerce, "Report on Assessed Valuation and Tax Levies." pp. 5, 19.

erty tax remains in force, but all taxes on improvements are placed upon land. Inasmuch as land values constitute fifty-three per cent of real estate values, that is, land plus improvements, this arrangement would almost double the existing tax rate on land. The new rate would be two and six-tenths per cent. That would be a little more than one and two-tenths per cent in excess of the present rate. It would involve a deduction of $1.20 from the returns on every one hundred dollar tract of land. On a five per cent basis, this would mean a decline in land values of twenty-four per cent.

This degree of tax transfers to land is the utmost that will be feasible or justifiable for many years. If it were fully applied at once to all kinds of land it would inflict considerable hardship on vast numbers of owners. Proprietors of real estate whose land values stood in the same ratio to its improvement values as the general ratio for the entire country (53 per cent) would be neither better nor worse off than they are now. What they gained through the abolition of improvement taxes they would lose through the increased tax on land. Those whose land value ratio exceeded 53 per cent of their real estate values would find their taxes proportionately increased. Those in the opposite position would pay correspondingly less than at present. Those who owned buildings or other improvements but no land would be relieved of all taxes on real estate. Those who owned land but no improvements would find their tax rate increased by one and two-tenths per cent and the value of their holdings decreased by 24 per cent.

Hence the arrangement ought to be applied gradually. If the transfer were spread over a period of five years it might not cause an unreasonable amount of hardship, at least, in places where the tendency of land values was upward. Indeed, the plan might well be restricted, as far as possible, to lands of this sort. For example, it could begin with cities of over 50,000 population. Thus restricted, it would produce a minimum of hardship and

a maximum of social benefits, and provide the experience and guidance that would be helpful for further extensions.[1]

The Social Benefits of the Plan

These may be summed up under three heads: making land easier to acquire; cheapening the products and rent of land; and reducing the burdens of taxation borne by the poorer and middle classes. An increase in the tax on land would reduce its value and price, or at least cause the price to be lower than it would have been in the absence of the tax. This does not mean that land would be more profitable to the purchaser, since he is enabled to buy it at a lower price only because it yields him less net revenue, or because it is less likely to increase in value. The value of land is always determined by its revenue-producing power, and by its probabilities of price-appreciation. Consequently, what the purchasers would gain by the lower price resulting from the new tax, they would lose when they came to pay the tax itself, and when they found the chances of value increases diminished. If a piece of land which brings a return of five dollars a year costs one hundred dollars before the new tax of one per cent is imposed, and can be bought for eighty dollars afterward, the net interest on the purchase price has not changed. It is still five per cent. Hence the only advantage to the prospective purchaser of land in getting it cheaper consists in the fact that he can obtain it with a smaller outlay. For persons in moderate circumstances this is an important consideration.

In the second place, higher taxes would cause many existing owners either to improve their land, in order to

[1] Probably the most concrete and satisfactory discussion of the increment tax and the project to transfer improvement taxes to land, is that presented in the "Final Report of the Committee on Taxation of the City of New York"; 1916. It contains brief, though complete, statements of all phases of the subject, together with concise arguments on both sides, majority and minority recommendations, a great variety of dissenting individual opinions, and considerable testimony by experts, authorities, and other interested persons.

have the means of meeting the added fiscal charges, or to sell it to persons who would be willing to make improvements. An increase in the rapidity of improvements on land would mean an increase in the rate at which land was brought into use, and therefore an increase in the volume of products. This virtual increase in the supply of land, and actual increase in the supply of products, would tend to cause a fall in three kinds of prices: the price of products, the rent of land, and the price of land.

In the third place, the reduction, and finally the abolition, of taxes on improvements would be especially beneficial to the poorer and middle classes because they now pay a disproportionate share of these charges. Lower taxes on dwellings would mean lower rents for all persons who did not own their homes, and lower taxes for all owners whose residence values were unusually large relatively to their land values.

Supertaxes

Every estate containing more than a maximum number of acres, say, ten thousand, whether composed of a single tract or of several tracts, could be compelled to pay a special tax in addition to the ordinary tax levied on land of the same value. The rate of this supertax should increase with the size of the estate above the fixed maximum. Through this device large holdings could be broken up and divided among many owners and occupiers. For several years it has been successfully applied for this purpose in New Zealand and Australia.[1] Inasmuch as this tax exemplifies the principle of progression, it is in accord with the principles of justice; for relative ability to pay is closely connected with relative sacrifice. Other things being equal, the less the sacrifice involved the greater is the ability of the individual to pay the tax. Thus, the man with an income of ten thousand dollars a year makes a smaller sacrifice in giving up two per cent of it than the man whose

[1] Cf. Fallon, op. cit., pp. 442, sq.

income is only one thousand dollars; for in the latter case the twenty dollars surrendered represent a deprivation of the necessaries or the elementary comforts of life, while the two hundred dollars taken from the rich man would have been expended for luxuries or converted into capital. While the incomes of both are reduced in the same proportion, their satisfactions are not diminished to the same degree. The wants that are deprived of satisfaction are much less important in the case of the richer than in that of the poorer man. Hence the only way to bring about anything like equality of sacrifice between them is to increase the proportion of income taken from the former. This means that the rate of taxation would be progressive.[1] It would increase with the increase of income.

It is in order to object that the principle of progression should not be applied to the taxation of great landed estates, since a considerable part of them is unproductive, and consequently does not directly affect sacrifice. But the same objection can be urged against any taxation of unoccupied land. The obvious reply is that the equal taxation of unproductive with productive land is justified by social reasons, chiefly the unwisdom of permitting land to be held out of use. The same social reasons apply to the question of levying an exceptionally high tax on large estates, even though they may at present produce no revenue.

While the tax is sound in principle, it is probably not much needed in America in connection with agricultural or urban land. Its main sphere of usefulness would seem to be certain great holdings of mineral, timber, and water power lands. "There are many great combinations in other industries whose formation is complete. In the lumber industry, on the other hand, the Bureau now finds in the making a combination caused, fundamentally, by a long standing public policy. The concentration already exist-

[1] Cf. Vermeersch, "Quaestiones de Justitia," pp. 94-126; Seligman, "Progressive Taxation in Theory and Practice," pp. 210, 211; Mill, "Principles of Political Economy," book v, ch. ii, sec. 3.

ing is sufficiently impressive. Still more impressive are the possibilities for the future. In the last forty years concentration has so proceeded that 195 holders, many interrelated, now have practically one-half of the privately owned timber in the investigation area (which contains eighty per cent of the whole). This formidable process of concentration, in timber and in land, clearly involves grave future possibilities of impregnable monopolistic conditions, whose far-reaching consequences to society it is now difficult to anticipate fully or to overestimate." [1]

In order to check the growth of absentee ownership and tenancy it has been suggested that a supertax be imposed upon all agricultural land which is not cultivated by the owner. This would tend to increase the owner's desire to sell and to hasten the process of converting tenants into operating owners. In those states where tenancy has steadily and rapidly increased and where the increase shows signs of continuing indefinitely, this measure would undoubtedly be justified on grounds of social welfare. Of course, the supertax should be so restricted that when combined with the general land tax it would not amount to actual or virtual confiscation.

The conclusions of this chapter may be summed up as follows: Exceptionally valuable public lands, such as those containing timber, minerals, metals, oil, gas, phosphate and water power should remain under public ownership. Municipalities should lease instead of selling their lands and should strive to increase their holdings. To take all future increases in the value of land would be morally lawful if owners were compensated for positive losses of interest and principal. To take a small part of the increase and to transfer very gradually the taxes on improvements and on personal property to land would be likewise free from moral censure. The same judgment may be pronounced upon moderate supertaxes on large holdings of

[1] "Summary of Report of the Commissioner of Corporations on the Lumber Industry in the United States," p. 8.

exceptionally valuable land and on certain agricultural land not cultivated by the owners.

REFERENCES ON SECTION I

ASHLEY: The Origin of Property in Land. London; 1892.
WHITTAKER: The Taxation, Tenure, and Ownership of Land. London; 1914.
PREUSS: The Fundamental Fallacy of Socialism. St. Louis; 1908.
GEORGE: Progress and Poverty; and A Perplexed Philosopher.
YOUNG: The Single Tax Movement in the United States. Princeton, 1916.
SHEARMAN: Natural Taxation. N. Y., 1898.
MATHEWS: Taxation and the Distribution of Wealth. N. Y.; 1914.
FEDERAL TRADE COMMISSION: Report on National Wealth and Income. Washington, 1926.
DEPARTMENT OF COMMERCE: Report on Wealth, Public Debt and Taxation. Washington, 1924.
CATHREIN: Das Privatgrundeigenthum und seine Gegner. Freiburg; 1909.
FALLON: Les Plus-Values et l' Impot. Paris; 1914.
HAIG: Final Report of the Committee on Taxation of the City of New York; 1916.
The exemption of Improvements from Taxation in Canada and U. S.; 1915.
Some Probable Effects of Exemption in City of New York; 1915.
KELLEHER: Private Ownership. Dublin; 1911.
U. S. COMMISSIONER OF CORPORATIONS: Reports on the Lumber, Petroleum, Steel, and Water Power of the United States.
SELIGMAN: Essays in Taxation; Shifting and Incidence of Taxation; and Progressive Taxation in Theory and Practice.
Also the works of Taussig, Devas, Carver, Pesch, King, Vermeersch, and the Commission on Industrial Relations, which are cited at the end of the introductory chapter.

SECTION II

THE MORALITY OF PRIVATE CAPITAL AND INTEREST

CHAPTER IX

THE NATURE AND THE RATE OF INTEREST

INTEREST denotes that part of the product of industry which goes to the capitalist. As the ownership of land commands rent, so the ownership of capital commands interest; as rent is a price paid for the use of land, so interest is a price paid for the use of capital.

However, the term capital is less definite and unambiguous, both in popular and in economic usage, than the word land. The farmer, the merchant, and the manufacturer often speak of their land, buildings and chattels as their capital, and reckon the returns from all these sources as equivalent to a certain per cent of interest or profit. This is not technically correct; when we use the terms capital and interest we should exclude the notions of land and rent.

Meaning of Capital and Capitalist

Capital is ordinarily defined as, wealth employed directly for the production of new wealth. According as it is considered in the abstract or the concrete, it is capital-value or capital-instruments. For example, the owner of a wagon factory may describe his capital as having a value of $100,000, or as consisting of certain buildings, machines, tools, office furniture, etc. In the former case he thinks of his capital as so much abstract value which, through a sale, he could take out of the factory, and put into other concrete capital forms, such as a railroad or a jobbing house. In the latter case he has in mind the particular instruments in which his capital is at present embodied. The capital-value concept is the more convenient,

and is usually intended when the word capital is used without qualification. It is also the basis upon which interest is reckoned; for the capitalist does not measure his share of the product as so many dollars of rent on his capital-instruments, but as so many per cent on his capital-value.

Capitalists are of two principal kinds: those who employ their own money in their own enterprises; and those who lend their money to others for use in industry. The former may be called active capitalists, the latter loan-capitalists. Perhaps a majority of active capitalists use some borrowed money in their business. To the lenders of this borrowed money or capital they turn over a part of the product in the form of interest. When, therefore, interest is defined as the share of the product that goes to the capitalist, it is the owner of capital-value rather than of capital-instruments that is meant. For the man who has loaned $50,000 at five per cent to the wagon manufacturer is not, except hypothetically, the owner of the buildings which have been erected with that money. These are owned (subject possibly to a mortgage) by the borrower, the active capitalist. But the abstract value which has gone into them continues to be the property of the lender. As owner thereof, he, instead of the active capitalist, receives the interest that is assigned to this portion of the total capital. Hence interest is the share of the product that is taken by the owner of capital, whether he employs it himself or lends it to some one else. While the fundamental reason of interest is the fact that certain concrete instruments are necessary for making product, interest is always *reckoned* on capital-value, and goes to the owner of the capital-value. It goes to the man whose money has been put into the instruments, whether or not he is their owner.

Meaning of Interest

Interest is the share of the capitalist as capitalist. The man who employs his own capital in his own business

receives therefrom in addition to interest other returns. Let us suppose that some one has invested $100,000 of borrowed money and $100,000 of his own money in a wholesale grocery business. At the end of the year, after defraying the cost of labor, materials, rent, repairs and replacement, his gross returns are $15,000. Out of this sum he must pay five thousand dollars as interest on the money that he has borrowed. This leaves him a total amount of ten thousand dollars as his share of the product of the industry. Since he could command a salary of three thousand dollars if he worked for some one else, he regards his labor of directing his own business as worth at least this sum. Deducting it from ten thousand dollars, he has left seven thousand dollars, which must in some sense be accredited as payment for the use of his own capital. However, it is not all pure interest; for he runs the risk of losing his capital, and also of failing to get the normal rate of interest on it during future unprosperous years. Hence he will require a part of the seven thousand dollars as insurance against these two contingencies. Two per cent of his capital, or two thousand dollars, is not an excessive allowance. If the business did not provide him with this amount of insurance he would probably regard it as unsafe, and would sell it and invest his money elsewhere. Subtracting two thousand dollars from seven thousand, we have five thousand left as pure interest on the director's own capital. This is equivalent to five per cent, which is the rate that he is paying on the capital that he has borrowed. If he could not get this rate on his own money he would probably prefer to become a lender himself, a loan capitalist instead of an active capitalist. This part of his total share, then, and only this part, is pure interest. The other two sums that he receives, the three thousand dollars and the two thousand dollars, are respectively wages for his labor and insurance against his risks. Sometimes they are classified together under the general name of profits.

Let us suppose, however, that the gross returns are not $15,000 but $17,000. How is the additional sum to be denominated? In strict economic language it would probably be called net profits, as distinguished from normal or necessary profits, which comprise wages of direction and insurance against loss. Sometimes it is called interest. In that case the owner of the store would receive seven instead of five per cent on his own capital. Whether the extra two per cent be called net profits or surplus interest, is mainly a matter of terminology. The important thing is to indicate clearly that these terms designate the surplus which goes to the active capitalist in addition to necessary profits and necessary interest.

At the risk of wearisome repetition, one more example will be given to illustrate the distinction between interest and the other returns that are received in connection with capital. The annual income from a railway bond is interest on lender's capital, and consequently pure interest. Ordinarily the bondholder is adequately protected against the loss of his capital by a mortgage on the railroad. On the other hand, the holder of a share of railway stock is a part owner of the railroad, and consequently incurs the risk of losing his property. Hence the dividend that he receives on his stock comprises interest on capital plus insurance against loss. It is usually one or two per cent higher than the rate on the bonds. Since the officers and directors are the only shareholders who perform any labor in the management of the railroad, only they receive wages of management. Consequently the gross profits are divided into interest and dividends at fixed rates, and fixed salaries. When a surplus exists above these requirements it is not, as a rule, distributed among the stockholders annually. In railroads, therefore, and many other corporations, interest is easily distinguished from those other returns with which it is frequently confused in partnerships and enterprises carried on by individuals.

The Rate of Interest

Is there a single rate of interest throughout industry? At first sight this question would seem to demand a negative answer. United States bonds pay about three per cent; banks three or four per cent; municipal bonds about four per cent; railway bonds about five per cent; the stocks of stable industrial corporations about six per cent net; real estate mortgages from six to seven per cent; promissory notes somewhat higher rates; and pawnbrokers' loans from twelve per cent upward. Moreover, the same kind of loans brings different rates in different places. For example, money lent on the security of farm mortgages yields only about six per cent in the states of the East, but seven or eight per cent on the Pacific coast.

These and similar variations are differences not so much of interest as of security, cost of negotiation, and mental attitude. The farm mortgage pays a higher rate than the government bond partly because it is less secure, partly because it involves greater trouble of investment, and partly because it does not run for so long a time. For the same reasons a higher rate of interest is charged on a promissory note than on a bank deposit certificate. Again, the lower rates on government bonds and bank deposits are due in some degree to the peculiar attitude of that class of investors whose savings are small in amount, who are not well aware of the range of investment opportunities, and to whom security and convenience are exceptionally important considerations. If such persons did not exist the rates on government bonds and savings deposits would be higher than they actually are. The higher rates in a new country on, say, farm mortgages are likewise due in part to psychical peculiarities. Where men are more speculative and more eager to borrow money for industrial purposes, the demand for loans is greater relatively to the supply than in long established and more conservative com-

munities. Therefore, the price of the loans, the rate of interest, is higher.

In one sense it would seem that the lowest of the rates cited above, namely, that on United States bonds, represents pure interest, and that all the other rates are interest plus something else. Nevertheless, the sums invested in these bonds form but a very small part of the whole amount of money and capital drawing interest, and they come from persons who do not display the average degree either of business ability or of willingness to take risks. Hence it is more convenient and more correct to regard as the standard rate of interest in any community that which is obtained on first class industrial security, such as the bonds of railroads and other stable corporations, and mortgages on real estate. Loans to these enterprises are subject to what may properly be called the average or prevailing industrial risks, are negotiated in average psychical conditions, and embrace by far the greater part of all money drawing interest; consequently the rate that they command may be looked upon as in a very real and practical sense normal. While this conception of the normal rate is in a measure conventional, it accords with popular usage. It is what most men have in mind when they speak of the prevailing rate of interest.

The prevailing or standard rate in any community can usually be stated with a sufficient approach to precision to be satisfactory for all practical purposes. In all the Eastern States it is now about six per cent; in the Middle West it is somewhere between five and six per cent; on the Pacific coast it is between six and eight per cent. The Supreme Court of Minnesota decided in 1896 that, in view of the actual rates of interest then obtaining, five per cent on the reproduction cost of railroads was a fairly liberal return, and could be adopted by the state authorities in fixing charges for carrying freight and passengers.[1] A few years later the Michigan tax commission allowed the railroads

[1] "Final Report of the Industrial Commission," pp. 410, 411.

four per cent on the reproduction cost of their property, on the ground that investments which yielded that rate in addition to the usual tax of one per cent or five per cent before the deduction of the tax, stood at par on the stock market.[1] In other words, the prevailing rate was five per cent. At the beginning of the year 1907, the railroad commission of Wisconsin fixed six per cent as the return to which the stockholders of railroads were entitled, because this was about the return which investors generally were able to get on that kind of security. In the view of the Commission, the current rate of interest on railroad *bonds*, and similar investments, was about five per cent.[2] The significance of these decisions by the public authorities of three states is found not so much in the particular rates which they sanctioned as in the fact that they were able to determine a standard or prevailing rate. Therefore a standard rate exists.

What causes the rate to be five per cent, or six per cent, or any other per cent? Briefly stated, it is the interplay of supply and demand. Since interest is a price paid for the use of a thing, *i.e.*, capital, its rate or level is determined by the same general forces that govern the price of wheat, or shoes, or hats, or any other commodity that is brought and sold in the market. The rate is five or six per cent because at that rate the amount of money offered by lenders equals the amount demanded by borrowers. Should the amount offered at that rate increase without a corresponding increase in the amount demanded, the rate would fall, just as it would rise under opposite conditions.

Supply and demand, however, are merely the immediate forces. They are themselves the outcome or resultant of factors more remote. On the side of supply, the principal remote forces which regulate the rate of interest are: the industrial resources of the community, and the relative

[1] "Report of the Industrial Commission," vol. IX, p. 380.

[2] "Publication No. 32 of the Railroad Commission of Wisconsin," pp. 165, 166.

strength of its habits of saving and spending. On the side of demand, the chief ultimate factors are: the productivity of capital-instruments, the comparative intensity of the social desires of investing and lending, and the supplies of land, business ability and labor. Each of these factors exercises upon the rate of interest an influence of its own, and each of them may be assisted or counteracted by one or more of the others. Precisely what rate will result from any given condition of the factors cannot be stated beforehand, for the factors cannot be measured in such a way as to provide a basis for this kind of forecast. All that can be said is that, when changes occur on the side of either demand or supply, there will be a corresponding change in the rate of interest, provided that no neutralizing change takes place on the other side.

CHAPTER X

THE ALLEGED RIGHT OF LABOR TO THE ENTIRE PRODUCT OF INDUSTRY

In a preceding chapter we saw that Marxian Socialism is logically debarred from passing *moral* judgment upon any social institution or practice.[1] If social institutions are produced necessarily by socio-economic forces they are neither morally good nor morally bad. They are quite as unmoral as rain and snow, verdure and decay, tadpoles and elephants. Consistent Socialists cannot, therefore, censure on purely ethical grounds private capital and interest.

This logical requirement of the theory of economic determinism is exemplified in much of the rigidly scientific discussions of Socialists. Marx maintained that the value of commodities is all determined and created by labor, and that interest is the surplus which the laborer produces above the cost of his keep; nevertheless Marx did not formally assert that the laborer has a moral right to the whole product, nor that interest is theft. He set forth his theories of value and surplus value as positive explanations of economic facts, not as an ethical evaluation of human actions. His object was to show the causes and nature of value, wages, and interest, not to estimate the moral claims of the agents of production, or the morality of the distributive process. In his formal discussion of the theory of value and of surplus value, Marx said nothing that implied a belief in genuine moral responsibility, or that contradicted the principles of philosophical material-

[1] Cf. Engels, "Socialism: Utopian and Scientific," pp. 45, 46; and Hillquit-Ryan, "Socialism: Promise or Menace," 103, 104, 143-145.

ism and economic determinism. It is, therefore, quite erroneous to infer that, since the Marxian theory attributes all value and products to the action of labor, Marxian Socialists must condemn the interest-taker as a robber.

Neither Marx nor any other Socialist authority, however, has always held consistently to this purely positive method of economic exposition. When they declare that the laborer is "exploited," that surplus value is "filched" from him, that the capitalist is a "parasite," etc., they are expressing and conveying distinct moral judgments. In their more popular writings Socialist authors do not seriously attempt to observe the logical requirements of their necessitarian philosophy. They assume the same ethical postulates, and give expression to the same ethical intuitions as the man who believes in the human soul and free will.[1] And the great majority of their followers likewise regard the question of distribution as a moral question, as a question of justice. In their view the laborer not only creates all value, but has a just claim to the whole product.

The Labor Theory of Value

This doctrine is sometimes formally based upon the Marxian theory of value, and is sometimes defended independently of that theory. In the former case its groundwork is about as follows: By eliminating the factors of utility and scarcity, Marx found that the only element common to all commodities is labor, and then concluded that labor is the only possible explanation, creator, and determinant of value.[2] Since capital, that is, concrete capital, is a commodity, its value is likewise determined and created by labor. Since it cannot create value, for only labor has that power, it can contribute to the product of the productive process in which it is engaged only as much value as it originally received. Since it is only a reservoir of value, it cannot transfer more value than it

[1] Cf. Hillquit-Ryan, op. cit., pp. 75, 76.
[2] "Capital," pp. 1-9; Humboldt Edition.

holds and possesses. In the words of Marx, "the means of production transfer value to the new product, so far only as during the labor-process they lose value in the shape of the old use-value. The maximum loss of value that they can suffer in the process is plainly limited by the amount of the original value with which they came into the process, or, in other words, by the labor time necessary for their production. Therefore, the means of production can never add more value to the product than they themselves possess independently of the process in which they assist. However useful a given kind of raw material, or a machine or other means of production may be, though it may cost 150 pounds, or say 500 days labor, yet it cannot, under any circumstances, add to the value of the product more than 150 pounds." [1]

To view the matter from another angle: capital contributes to the product only sufficient value to pay for its own reproduction. When, as is the normal usage, the undertaker has deducted from the product sufficient value or money to replace the deteriorated or worn out machine, or other concrete capital, all the remaining value in the product is due specifically to labor.

When, therefore, the capitalist goes further, and appropriates from the product interest and profits, he takes a part of the value that labor has created. He seizes the surplus value which labor has produced in excess of the wages that it receives. In ethical terms, he robs the laborers of a part of their product.

It is not necessary to introduce any extended refutation of this arbitrary, unreal, and fantastic argument. "The theory that labor is the sole source of value has few defenders to-day. In the face of the overwhelming criticism which has been directed against it, even good Marxists are forced to abandon it, or to explain it away." [2] It may, however, be useful to recount very briefly the facts

[1] Op. cit., p. 117
[2] Skelton, "Socialism: A Critical Analysis," pp. 121, 122.

which disprove the theory. Labor creates some things which have no value, as wooden shoes in a community that does not desire wooden shoes; some things have value, exchange value, although no labor has been expended upon them, as land and minerals; the value of things is sometimes greater, sometimes less, proportionately, than the labor embodied in them; for example, paintings by the old masters, and last year's styles of millinery; and, finally, the true determinants of value are utility and scarcity. If it be objected that Marx was aware of these two factors, the reply is that he either restricted them to the function of conditions rather than efficient causes of value, or attributed to them an influence that is inconsistent with his main theory that labor is the sole determinant of value. Indeed, the contradictions into which Marx was led by the theory are its sufficient refutation.[1]

With the destruction of the labor theory of value, the Marxian contention that capital contributes only its own original value to the product is likewise overthrown. The same conclusion is reached more directly by recalling the obvious facts of experience that, since the joint action of both capital and labor is required to bring into being every atom of the product, each is in its own order the cause of the whole product, and the proportion of the whole that is specifically due to the causal influence of either is as incapable of determination as the procreative contribution of either parent to their common offspring. The productive process carried on by labor and capital is virtually an organic process, in which the precise amount contributed by either factor is unknown and unknowable.

In so far, therefore, as the alleged right of labor to the whole product is based upon the Marxian theory of value, it has not a shadow of validity.

The Right of Productivity

But the claim is not necessarily dependent upon this

[1] Cf. Skelton, loc. sit.

foundation. Those Socialists who have abandoned the labor theory of value can argue that the laborer (including the active director of industry) is the only *human* producer, that the capitalist as such produces nothing, and consequently has no moral claim to any part of the product. Whatever theory of value we may adopt, or whether we adopt any, we cannot annul the fact that interest does not represent labor expended upon the product by the capitalist.

Nevertheless, this fact does not compel the conclusion that the share of the product now taken by the capitalist belongs of right to the laborer. Productivity does not of itself create a right to the product. It is not an intrinsic title. That is to say, a right to the product is not inherent in the relation between product and producer. It is determined by certain extrinsic relations. When Brown makes a pair of shoes out of materials that he has stolen, he has not a right to the whole product; when Jones turns out a similar product from materials that he has bought, he becomes the exclusive owner of the shoes. The intrinsic relation of productivity is the same in both cases. It is the difference of extrinsic relation, namely, the relation between the producer and the material, that begets the difference between the moral claims of the two producers upon the product.

The right of the producer is conditioned by certain other and more fundamental relations. Why has Jones a right to the shoes that he has made out of materials that he has bought. Not because he needs them; he is not alone in this condition. The ultimate reason and basis of his ownership is to be sought in the practical requirements of an equitable social distribution. Unless men receive an adequate return for their labor, they will not be able to satisfy their wants in a regular and sufficient manner. If they are forced to labor for others without compensation, they are deprived of the opportunity to develop their personality. They are treated as mere instruments to the welfare of beings who are not their superiors, but their

moral and juridical equals. Their intrinsic worth and sacredness of personality is outraged, their essential equality with their fellows is disregarded, and their indestructible rights are violated. On the other hand, when a producer, such as Jones, gets possession of his product, he subordinates no human being to himself, deprives no man of the opportunity to perform remunerative labor, nor appropriates an unreasonable share of the common bounty of the earth. He has a right to his product because this is one of the reasonable methods of distribution.

In fact, it is the exigencies of reasonable distribution that constitute the fundamental justification of every title of ownership. The title of purchase by which a man claims the hat that he wears; the title of inheritance by which a son claims the house that once belonged to his father; the title of contract through which a laborer gets wages, a merchant prices, and a landlord rent, are all valid simply because they are reasonable devices for enabling men to obtain the goods of the earth for the satisfaction of their wants. All titles of property, productivity included, are conventional institutions which reason and experience have shown to be conducive to human welfare. None of them possesses intrinsic or metaphysical validity.[1]

Therefore, the Socialist cannot establish the right of labor to the full product of industry until he proves that this so-called right could be reduced to practice consistently with individual and social welfare. In other words, he must show that to give the entire product to the laborer would be a reasonable method of distribution. Now the arrangement by which the Socialist proposes to award the whole product of labor is the collective ownership and operation of the means of production, and the social distribution of the product. If this system would not enable

[1] The exaggerated claims made on behalf of social productivity in the matter of land values have been examined in a previous chapter. Similar exaggerations with regard to capital will be considered in chapter xii.

the laborer and the members of society generally to satisfy their wants to better advantage than is possible under the present system, the contention that the laborer has a right to the entire product of industry falls to the ground. The question will be considered in the following chapter.

CHAPTER XI

THE SOCIALIST SCHEME OF INDUSTRY

"NEVER has our party told the workingman about a 'State of the future,' never in any way than as a mere utopia. If anybody says: 'I picture to myself society after our program has been realized, after wage labor has been abolished, and the exploitation of men has ceased, in such and such a manner,—' well and good; ideas are free, and everybody may conceive the Socialist State as he pleases. Whoever believes in it may do so; whoever does not, need not. These pictures are but dreams, and Social Democracy has never understood them otherwise." [1]

Such is the official attitude of Socialism toward descriptions of its contemplated industrial organization. The party has never drawn up nor approved any of the various outlines of this sort which have been defended by individual Socialists. It maintains that it cannot anticipate even the essential factors in the operation of a social and industrial system which will differ so widely from the one that we have to-day, and which will be so profoundly determined by events that are impossible to prognosticate.

Socialist Inconsistency

From the viewpoint of all but convinced Socialists, this position is indefensible. We are asked to believe that the collective ownership and operation of the means of production would be more just and beneficial than the present

[1] Wilhelm Liebknecht, cited in Hillquit's "Socialism in Theory and Practice," p. 107.

plan of private ownership and operation. Yet the Socialist party refuses to tell us how the scheme would bring about these results; refuses to give us, even in outline, a picture of the machine at work. As reasonably might we be expected to turn the direction of industry over to a Rockefeller or a Morgan, making an act of faith in their efficiency and fairness. We are in the position of a man who should be advised to demolish an unsatisfactory house, without receiving any solid assurance that the proposed new one would be as good. To our requests for specific information about the working of the new industrial order the Socialists, as a rule, answer in terms of prophesied results. They leave us in the dark concerning the causes by which these wonderful results are to be produced. They hope that our credulity will equal theirs.

From the viewpoint of the confirmed Socialist, however, this failure to be specific is not at all unreasonable. He can have faith in the Socialist system without knowing beforehand how it will work. He believes in its efficacy because he believes that it is inevitable. In the words of Kautsky, "what is proved to be inevitable is proved not only to be possible, but to be the only possible outcome." [1] The Socialist believes that his scheme is inevitable because he thinks that it is necessarily included in the outcome of economic and social evolution.

Neither the premises nor the conclusion of this reasoning is valid. The doctrines of economic determinism, the class struggle, the concentration of capital, the disappearance of the middle classes, the progressive pauperization of the working classes, and all the other tenets of the Socialist philosophy, have been thoroughly discredited by the facts of psychology, the experience of the last half century, and the present trend of industrial and social forces.[2] Even

[1] "Das Erfurter Program," cited by Skelton, op. cit., p. 178.

[2] Cf. Skelton, op. cit., ch. vii; Bernstein, "Evolutionary Socialism," pp. 1-94; Simkhovitch, "Marxism vs. Socialism," *passim;* Walling, "Progressivism and After," *passim;* Hillquit-Ryan, op cit., ch. iv.

if the Socialist outcome were inevitable, it would not necessarily be an improvement on the present system. It might illustrate the principle of retrogression.

Since we cannot make an act of faith in either the inevitableness or the efficacy of the Socialist industrial scheme, we are compelled to submit it to the ordinary tests of examination and criticism. We must try to see what would be the essential structure, elements, and operation of a system in which the means of production were owned and managed collectively, and the product socially distributed. In attempting to describe the system, we shall be guided by what seems to be inherently necessary to it, and by the prevalent conception of it among present day Socialists. In this connection we have to observe that some of the criticisms of the Socialist order attribute to it elements that are not essential, nor any longer demanded by the authoritative spokesmen of the movement; for example, complete confiscation of capital, compulsory assignment of men to the different industrial tasks, equality of remuneration, the use of labor checks instead of money, the socialization of all capital down to the smallest tool, and collective ownership of homes.

Expropriating the Capitalists

The total income of the people of the United States, in the year 1923, is estimated by the Federal Trade Commission at a little under $70,000,000,000.[1] According to the best available estimate—it is only an estimate,—about 30 per cent of the national income of the United States goes to the owners of land and capital in the form of rent, interest, and dividends.[2] In 1923 this would have amounted to $21,000,000,000. Not all of it, however, could have been diverted to labor. Even a Socialist government would have been compelled to use a large portion of it for the renewal and increase of the instruments of production. In

[1] "National Wealth and Income," p. 221.
[2] Edie, "Principles of the New Economics," p. 182.

1916 the national savings amounted to about $12,500,000,000.[1] Inasmuch as that seems to have been an exceptional year, we shall estimate the total current additions to capital at $10,000,000,000, leaving $11,000,000,000 for distribution among the workers. This would have meant $262 per capita for the 42,000,000 persons gainfully employed, or about $500 for each family in the United States.

Desirable as would be such an addition to the remuneration of labor, it could never be realized through the process of confiscation. The owners of land and capital would be sufficiently powerful to defeat any such simple scheme of setting up the collectivist commonwealth. They constitute probably a majority of the adults of our population, and their economic power would make them much stronger relatively than their numbers.[2] Ethically the policy of confiscation would be sheer robbery. To be sure, not all owners of land and capital have a valid claim to all their possessions, but practically all of them hold the greater part of their wealth by some kind of just title. Much land and capital that was originally acquired by unjust means has become morally legitimatized by the title of prescription.

The majority of present day Socialists seem to advocate at least partial compensation.[3] But this plan does not seem to offer any considerable advantage over complete confiscation. As regards morality, it would differ only in the degree of its injustice; as regards expediency, it would be at best of doubtful efficacy. If the capitalists were given only a small fraction of the value of their holdings they would oppose the change with quite as much determination as though they were offered nothing; if they were paid almost the full value of their possessions there would be no substantial gain to the community from the transfer; if they were compensated at a figure somewhere between

[1] King, "Journal of the American Statistical Association," Dec., 1922.

[2] Cf. Hillquit-Ryan, op. cit. pp. 107, 136.

[3] Cf. Hillquit-Ryan, op. cit., pp. 73-77; Skelton, op. cit., p. 183; Walling, "Socialism as It Is," p. 429.

these two extremes their resistance would still be more costly to the State than the extra amount required to make full compensation.

Finally, if full compensation were offered it would have to take the form of government obligations, securities, or bonds. If these did not bear interest the great majority of capital owners would regard the scheme as partial and considerable confiscation, and would fight it with determination and effectiveness. If the State bound itself to pay interest on the bonds it would probably find itself giving the dispossessed capitalists as high a rate of return on their capital, as large a share of the national product, as they receive under the present system. Consequently, the expropriation of the capitalists would bring no direct and pecuniary gain to the laboring classes. Indeed, the latter would suffer positive loss by the change, owing to the fact that the State would be required to withdraw from the national product a considerable amount for the maintenance, renewal, and expansion of the instruments of production. At present the capitalist class performs the greater part of this function through the reinvestment of the incomes that it receives in the form of interest and rent. The average Socialist entirely ignores this capitalistic service, when he draws his pessimistic picture of the vast share of the national product which now goes to "idle capitalists." So far as the larger capitalist incomes are concerned; that is, those in excess of twenty-five thousand dollars annually, it is probable that the greater part is not consumed by the receivers, but is converted into socially necessary capital instruments. Since this would not be permitted in a Socialist order, the capitalists would strive to consume the whole of the incomes received from the public securities, and the State would be compelled to provide the required new capital out of the current national product. In a word, society would have to give the capitalists about as much as it does at present, and to withhold

from the laborers for new capital an immense sum which is now furnished by the capitalists.

One reply to this difficulty is that the total product of industry would be much increased under Socialism. Undoubtedly an *efficient* organization of industry on collectivist lines would be able to effect economies by combining manufacturing plants, distributive concerns, and transportation systems, and by reducing unemployment to a minimum; but it could not possibly make the enormous economies that are promised by the Socialists. The assertion that under Socialism men would be able to provide abundantly for all their wants on a basis of a working day of four, or even two, hours is seductive and interesting, but it has no support in the ascertainable facts of industrial resources. Even if the Socialist organization were operating with a fair degree of efficiency, the gains that it could effect over the present system would probably not more than offset the social losses resulting from increased consumption by the compensated capitalists.

But the proposed industrial organization would not operate with a fair degree of efficiency. According to present Socialist thought, industries that are national in scope, such as the manufacture of petroleum, steel, and tobacco, would be carried on under national direction, while those that supplied only a local market, such as laundries, bakeries, and retail stores, would be managed by the municipalities. This division of control would be undoubtedly wise and necessary. Moreover, the majority of Socialists no longer demand that *all* tools and all industries should be brought under collective or governmental direction. Very small concerns which employed no hired labor, or at most one or two persons, could remain under private ownership and operation, while even larger enterprises might be carried on by coöperative associations.[1]

[1] Cf. Kautsky, "The Social Revolution," pp. 166, 167; Hillquit-Ryan, op. cit., p. 72.

Nevertheless the attempt to organize and operate collectively the industries of the country, even with these limitations, would encounter certain insuperable obstacles. These will be considered under the general heads of inefficient industrial leadership, inefficient labor, and interference with individual liberty.

Inefficient Leadership

Under Socialism the boards of directors or commissions which exercised supreme control in the various industries would have to be chosen either by the general popular vote, by the government, or by the workers in each particular industry. The first method may be at once excluded from consideration. Even now the number of officials chosen directly by the people is far too large; hence the widespread agitation for the "short ballot." Public opinion is coming to realize that the voters should be required to select only a few important officials, whose qualifications should be general rather than technical, and therefore easily recognized by the masses. These supreme functionaries should have the power of filling all administrative offices, and all positions demanding expert or technical ability. If the task of choosing administrative experts cannot be safely left to the mass of the voters at present, it certainly ought not to be assigned to them under Socialism, when the number and qualifications of these functionaries would be indefinitely increased.

If the boards of industrial directors were selected by the government, that is, by the national and municipal authorities, the result would be industrial inefficiency and an intolerable bureaucracy. No body of officials, whether legislative or executive, would possess the varied, extensive, and specific knowledge required to pick out efficient administrative commissions for all the industries of the country or the city. And no group of political persons could safely be entrusted with such tremendous power. It would enable them to dominate the industrial as well as

the political life of the nation or the municipality, to establish a bureaucracy that would be impregnable for a long period of years, and to revive all the conceivable evils of governmental absolutism.

The third method is apparently the one now favored by most Socialists. "The workers in each industry may periodically select the managing authority," says Morris Hillquit.[1] Even if the workers were as able as the stockholders of a corporation to select an efficient governing board, they would be much less likely to choose men who would insist on hard and efficient work from all subordinates. The members of a private corporation have a strong pecuniary interest in selecting directors who will secure the maximum of product at the minimum of cost, while the employees in a Socialist industry would want managing authorities who were willing to make working conditions as easy as possible.

The dependence of the boards of directors upon the mass of the workers, and the lack of adequate pecuniary motives, would render their management much less efficient and progressive than that of private enterprises. In the rules that they would make for the administration of the industry and the government of the labor force, in their selection of subordinate officers, such as superintendents, general managers, and foremen, and in all the other details of management, they would have always before them the abiding fact that their authority was derived from and dependent upon the votes of the majority of the employees. Their supreme consideration would be to conduct the industry in such a way as to satisfy the men who elected them. Hence they would strive to maintain an administration which would permit the mass of the labor force to work leisurely, to be provided with the most expensive conditions of employment, and to be immune from discharge except in rare and flagrant cases. Even if the members of the directing boards were sufficiently courageous

[1] Hillquit-Ryan, op. cit., p. 80; cf. Spargo, "Socialism," pp. 225-227.

or sufficiently conscientious to exact a reasonable and efficient service from all their subordinates and all the workers, they would not have the necessary pecuniary motives. Their salaries would be fixed by the government, and in the nature of things could not be promptly adjusted to reward efficient and to punish inefficient management. So long as their administration of industry maintained a certain routine level of mediocrity, they would have no fear of being removed; since they would be supervised and paid by public officials who would have neither the extraordinary capacity nor the necessary incentive to recognize and reward efficient management, they would lack the powerful stimulus which is provided by the hope of gain.

All the subordinate officers, such as department managers, superintendents, foremen, etc., would exemplify the same absence of efficiency. Knowing that they must carry out the prudent policy of the board of directors, they would be slow to punish shirking or to discharge incompetents. Realizing that the board of directors lacked the incentive to make promotions promptly for efficient service, or to discharge promptly for inefficient service, they would devote their main energies to the task of holding their positions through a policy of indifferent and routine administration.

Invention and progress would likewise suffer. Men who were capable of devising new machines, new processes, new methods of combining capital and labor, would be slow to convert their potencies into action. They would be painfully aware that the spirit of inertia and routine prevailing throughout the industrial and political organization would prevent their efforts from receiving quick recognition and adequate rewards. Inventors of mechanical devices particularly would be deprived of the stimulus which they now find in the hope of indefinitely large gains. Boards of directors, general managers, and other persons exercising industrial authority would be very slow to introduce new and more efficient financial or technical methods when they had no certainty that they would

receive adequate reward in the form of either promotion or money compensation. They would see no sufficient reason for abandoning the established and pleasant policy of routine methods and unprogressive management.

Inefficient Labor

The same spirit of inefficiency and mediocrity would permeate the rank and file of the workers. Indeed, it would operate even more strongly among them than among the officers and superiors; for their intellectual limitations and the nature of their tasks would make them less responsive to other than material and pecuniary motives. They would desire to follow the line of least resistance, to labor in the most pleasant conditions, to reduce irksome toil to a minimum. Since the great bulk of their tasks would necessarily be mechanical and monotonous, they would demand the shortest possible working day, and the most leisurely rate of working speed. And because of their numerical strength they would have the power to enforce this policy throughout the field of industry. They would have the necessary and sufficient votes. In a general way they might, indeed, realize that the practice of universal shirking and laziness must sooner or later result in such a diminution of the national product as to cause them great hardship, but the workers in each industry would hope that those in all the others would be more efficient; or doubt that a better example set by themselves would be imitated by the workers in other industries. They would not be keen to give up the certainty of easy working conditions for the remote possibility of a larger national product.

Attempted Replies to Objections

All the attempts made by Socialists to answer or explain away the foregoing difficulties may be reduced to two: the achievements of government enterprises in our present system; and the assumed efficacy of altruism and public honor in a régime of Socialism.

Under the first head appeal is made to such publicly owned and managed concerns as the post office, railroads, telegraphs, telephones, street railways, waterworks, and lighting plants. It is probably true that all these enterprises are on the whole carried on with better results to the public than if they were in private hands. It is likewise probable that these and all other public utility monopolies will sooner or later be taken over by the State in all advanced countries. Even if this should prove in all cases to be a better arrangement from the viewpoint of the general public welfare than private ownership and management, the fact would constitute no argument for a Socialist organization of all industry. In the first place, the efficiency of labor, management, and technical organization is generally lower in public than in private enterprises, and the cost of operation higher. Despite these defects, government ownership of public utilities, such as street railways and lighting concerns, may be socially preferable because these industries are monopolies. Inasmuch as their charges and services cannot be regulated by the automatic action of competition, the only alternative to public ownership is public supervision. Inasmuch as the latter is often incapable of securing satisfactory service at fair prices, public ownership and management becomes on the whole more conducive to social welfare. In other words, the losses through inefficient operation are more than offset by the gains from better service and lower charges. Five cent fares and adequate service on an inefficiently managed municipal street railway are preferable to eight cent fares on a privately owned street railway whose management is superior. On the other hand, all those industries which are not natural monopolies can be prevented from practicing extortion upon the public through regulated competition. In them, therefore, the advantages of private operation, of which competition itself is not the least, should be retained.

In the second place, practically all the public service monopolies are simpler in structure, more routine in opera-

tion, and more mature in organization and efficiency than the other industries. The degree of managerial ability required, the necessity of experimenting with new methods and processes, and the opportunity of introducing further improvements in organization are relatively less. Now, it is precisely in these respects that private has shown itself superior to public operation. Initiative, inventiveness, and eagerness to effect economies and increase profits are the qualities in which private management excels. When the nature and maturity of the concern have rendered these qualities relatively unimportant, public management can exemplify a fair degree of efficiency.

In the third place, the ability of the State to operate a few enterprises, does not prove that it could repeat the performance with an equal degree of success in all industries. I can drive two horses, but I could not drive twenty-two. No matter how scientific the organization and departmentalization of industries under Socialism, the final control of and responsibility for all of them would rest with one organ, one authority, namely, the city in municipal industries, and the nation in industries having national scope. This would prove too great a task, too heavy a burden, for any body of officials, for any group of human beings.

Finally, it must be kept in mind that the publicly operated utilities are subject continuously to the indirect competition of private management. By far the greater part of industry is now under private control, which sets the pace for efficient operation in a hundred particulars. As a consequence, comparisons are steadily provoked between public and private management, and the former is subject to constant criticism. The managers of the State concerns are stimulated and practically compelled to emulate the success of private management. This factor is probably more effective in securing efficiency in public industries than all other causes put together. In the words of Professor Skelton: "A limited degree of public ownership

succeeds simply because it is a limited degree, succeeds because private industry, in individual forms or in the socialized joint stock form, dominates the field as a whole. It is private industry that provides the capital, private industry that trains the men and tries out the methods, private industry that sets the pace, and—not the least of its services—private industry that provides the ever-possible outlet of escape." [1]

The Socialist expectation that altruistic sentiments and public honor would induce all industrial leaders and all ordinary workers to exert themselves as effectively as they now do for the sake of money, is based upon the very shallow fallacy that what is true of a few men may very readily become true of all men. There are, indeed, persons in every walk of life who work faithfully under the influence of the higher motives, but they are and always have been the exceptions in their respective classes. The great majority have been affected only feebly, intermittently, and on the whole ineffectively by either love of their kind or the hope of public approval.

A Socialist order could generate no forces which would be as productive of unselfish conduct as the motives that are drawn from religion. History shows nothing comparable either in extent or intensity to the record of self-surrender and service to the neighbor which are due to the latter influence. Yet religion has never been able, even in the periods and places most thoroughly dominated by Christianity, to induce more than a small minority of the population to adopt that life of altruism which would be required of the great majority under Socialism.

Moreover, the efficacy of the higher motives is much greater among men devoted to scientific, intellectual and religious pursuits than in either the leaders or the rank and file engaged in industrial occupations. The cause of this difference is to be sought in the varying nature of the two classes of activity: the first necessarily develops an appre-

[1] "Socialism: A Critical Analysis," p. 219.

ciation of the higher goods, the things of the mind and the soul; the second compels the attention of men to rest upon matter, upon the things that appeal to the senses, upon the things that are measurable in terms of money.

There is a special fallacy underlying the emphasis placed by Socialists on the power of public honor. It consists in the failure to perceive that this good declines in efficacy according as the number of its recipients increases. Even if all the industrial population were willing to work as hard for public approval as they now do for money, the results expected by Socialists would not be forthcoming. Public recognition of unselfish service is now available in relatively great measure because the persons qualifying for it are relatively few. They easily stand out conspicuous among their fellows. Let their numbers vastly increase, and unselfishness would become commonplace. It would no longer command popular recognition, save in those who displayed it in exceptional or heroic measure. The public would not have the time nor take the trouble to notice and honor adequately every floor walker, retail clerk, factory operative, street cleaner, agricultural laborer, ditch digger, etc., who might become a candidate for such recognition.

When the Socialists point to such examples of disinterested public service as that of Colonel Goethals in building the Panama Canal, they confound the exceptional with the average. They assume that, since an exceptional man performs an exceptional task from high motives, all men can be got to act likewise in all kinds of operations. They forget that the Panama Canal presented opportunities of self-satisfying achievement and fame which do not occur once in one hundred years; that the traditions and training of the army have during many centuries deliberately and consistently aimed and tended to produce an exceptionally high standard of honor and disinterestedness; that, even so, the majority of army officers have not in their civil assignments shown the same degree of faithfulness to the public welfare as Colonel Goethals; that the Canal was

built under a régime of "benevolent despotism," which placed no reliance upon the "social mindedness" of the subordinate workers; and that the latter, far from showing any desire to qualify as altruists or public benefactors, demanded and received material recognition in the form of wages, perquisites, and gratuities which greatly surpassed the remuneration received by any other labor force in history.[1] In a word, wherever in the construction of the Canal notable disinterestedness or appreciation of public honor was shown, the circumstances were exceptional; where the situation was ordinary, the Canal builders were unable to rise above the ordinary motives of selfish advantage.

Beneath all the Socialist argument on this subject lies the assumption that the attitude of the *average man* toward the higher motives can by some mysterious process be completely *revolutionized*. This is contrary to all experience, and to all reasonable probability. Only a small minority of men have ever, in any society or environment, been dominated mainly by altruism or the desire of public honor. What reason is there to expect that men will act differently in the future? Neither legislation nor education can make men love their neighbors more than themselves, or love the applause of their neighbors more than their own material welfare.

Restricting Individual Liberty

Even though human nature should undergo the degree of miraculous transformation necessary to maintain an efficient industrial system on Socialist lines, such a social organization must soon collapse because of its injurious effect upon individual liberty. Freedom of choice would be abolished in the most vital economic transactions; for there would be but one buyer of labor, and one seller of commodities. And these two would be identical, namely, the State. With the exception of the small minority that

[1] "The Panama Gateway," by Joseph Bucklin Bishop, p. 263.

might be engaged in purely individual vocations, and in coöperative enterprises, men would be compelled to sell their labor to either the municipality or the national government. As competition between these two political agencies in the matter of wages and other conditions of labor could not be permitted, there would be virtually only one employer. Practically all material goods would have to be purchased from either the municipal or the national shops and stores. Since the city and the nation would produce different kinds of goods, the purchaser of any given article would be compelled to deal with one seller. His freedom of choice would be further restricted by the fact that he would have to be content with those kinds and grades of commodities which the seller saw fit to produce. He could not create an effective demand for new forms and varieties of goods, as he now does, by stimulating the ingenuity and acquisitiveness of competing producers and dealers.

Prices and wages would, of course, be fixed beforehand by the government. The supposition that this function might be left to the workers in each industry is utterly impracticable. Such an arrangement would involve a grand scramble among the different industries to see which could pay its own members the highest wages, and charge its neighbors' members the highest prices. The final result would be a level of prices so high that only an alert and vigorous section of the workers in each industry could find employment. Not only wages and prices but hours, safety requirements, and all the other general conditions of employment, would be regulated by the government. The individuals in each industry could not be permitted to determine these matters any more than they could be permitted to determine wages. Moreover, all these regulations would from the nature of the case continue unchanged for a considerable period of time.

The restriction of choice enforced upon the sellers of labor and the buyers of goods, the utter dependence of

the population upon one agency in all the affairs of their economic as well as their political life, the tremendous social power concentrated in the State, would produce a diminution of individual liberty and a political despotism surpassing anything that the world has ever seen. It would not long be tolerated by any self-respecting people.

To reply that the Socialist order would be a democracy, and that the people could vote out of existence any distasteful regulation, is to play with words. No matter how responsive the governing and managing authorities might be to the popular will, the dependence of the individual would prove intolerable. Not the manner in which this tremendous social power is constituted, nor the personnel of those exercising it, but the fact that so much power is lodged in one agency, and so little immediate control of his affairs left to the individual, is the heart of the evil situation. In a word, it is a question of the liberty of the individual versus the all-pervading control of his actions by an agency other than himself. Moreover, the people in a democracy means a majority, or a compact minority. Under Socialism the controlling section of the voting population would possess so much power, political and economic, that it could impose whatever conditions it pleased upon the non-controlling section for an almost indefinite period of time. The members of the latter part of the population would not only be deprived of that immediate liberty which consists in the power to determine the details of their economic life, but of that remote liberty which consists in the power to affect general conditions by their votes.

In the last chapter we saw that the claim to the full product of industry, made on behalf of labor by the Socialists, cannot be established on intrinsic grounds. Like all other claims to material goods, it is valid only if it can be realized consistently with human welfare. Its validity depends upon its feasibility, upon the possibility of constructing some social system that will enable it to work.

The present chapter has shown that the requirements of such a system are not met by Socialism. A Socialist organization of industry would make all sections of the population, including the wage earning class, worse off than they are in the existing industrial order. Consequently, neither the private ownership of capital nor the individual receipt of interest can be proved to be immoral by the Socialist argument.

Since private ownership and management of capital are superior to Socialism, the State is obliged to maintain, protect, and improve the existing industrial system. This is precisely the conclusion that we reached in chapter iv with reference to private ownership of land. In chapter v we found, moreover, that individual ownership of land is a natural right. The fundamental considerations there examined lead to the parallel conclusion that the individual has a natural right to own capital. But we could not immediately deduce from the right to own land the right to take rent. Neither can we immediately deduce from the right to own capital the right to take interest. The positive establishment of the latter right will occupy us in the two following chapters.

CHAPTER XII

ALLEGED INTRINSIC JUSTIFICATIONS OF INTEREST

In his address as President of the American Sociological Society at the annual meeting, Dec. 27, 1913, Professor Albion W. Small denounced "the fallacy of treating capital as though it were an active agent in human processes, and crediting income to the personal representatives of capital, irrespective of their actual share in human service." According to his explicit declaration, his criticism of the modern interest-system was based primarily upon grounds of social utility rather than upon formally ethical considerations.

A German priest has attacked interest from the purely moral viewpoint.[1] In his view the owner of any sort of capital who exacts the return of anything beyond the principal violates strict justice.[2] The Church, he maintains, has never formally authorized or permitted interest, either on loans or on producing capital. She has merely tolerated it as an irremovable evil.

Is there a satisfactory justification of interest? If there is, does it rest on individual or on social grounds? That is to say: is interest justified immediately and intrinsically by the relations existing between the owner and the user of capital? Or, is it rendered morally good owing to its effects upon social welfare? Let us see what light is thrown on these questions by the anti-usury legislation of the Catholic Church.

[1] Hohoff, "Die Bedeutung der Marxschen Kapitalkritik"; Paderborn, 1908.

[2] Pp. 64-67, 88, 89, 96.

Attitude of the Church Toward Interest on Loans

During the Middle Ages all interest on *loans* was forbidden under severe penalties by repeated ordinances of Popes and Councils.[1] Since the end of the seventeenth century the Church has quite generally permitted interest on one or more extrinsic grounds, or "titles." The first of these titles was known as *lucrum cessans,* or relinquished gain. It came into existence whenever a person who could have invested his money in a productive object, for example, a house, a farm, or a mercantile enterprise, decided instead to lend the money. In such cases the interest on the loan was regarded as proper compensation for the gain which the owner might have obtained from an investment on his own account. The title created by this situation was called "extrinsic" because it arose out of circumstances external to the essential relations of borrower and lender. Not because of the loan itself, but because the loan prevented the lender from investing his money in a productive enterprise, was interest on the former held to be justified. In other words, interest on the loan was looked upon as the fair equivalent of the interest that might have been obtained on the investment. It took the gain that was passed by.

During the seventeenth, eighteenth, and nineteenth centuries, another title or justification of loan-interest found some favor among Catholic moralists. This was the *praemium legale,* or legal rate of interest allowed by civil governments. Wherever the State authorized a definite rate of interest, the lender might, according to these writers, take advantage of it with a clear conscience.

To-day the majority of Catholic authorities on the subject prefer the title of virtual productivity as a justification. Money, they contend, has become virtually productive. It can readily be exchanged for income-bearing

[1] Cf. Van Roey, "De Justo Auctario ex Contractu Crediti," and Ashley, "English Economic History."

or productive property, such as, land, houses, railroads, machinery, and distributive establishments. Hence it has become the economic equivalent of productive capital, and the interest which is received on it through a loan is quite as reasonable as the annual return to the owner of productive capital. Between this theory and the theory connected with *lucrum cessans* the only difference is that the former shifts the justification of interest from the circumstances and rights of the lender to the present nature of the money itself. Not merely the fact that the individual will suffer if, instead of investing his money he loans it without interest, but the fact that money is generally and virtually productive, is the important element in the newer theory. In practice, however, the two explanations or justifications come to substantially the same thing. Nevertheless, the Church has given no positive approval to any of the foregoing theories. In the last formal pronouncement by a Pope on the subject, Benedict XIV [1] condemned anew all interest that had no other support than the intrinsic conditions of the loan itself. At the same time, he declared that he had no intention of denying the lawfulness of interest which was received in virtue of the title of *lucrum cessans,* nor the lawfulness of interest or profits arising out of investments in productive property. In other words, the authorization that he gave to both kinds of interest was merely negative. He refrained from condemning them.

In canon 1543 of the new and revised Code of Canon Law approved and promulgated by Pope Benedict XV, September 15, 1917, we find a reiteration of the traditional principle that it is unlawful to take interest on the intrinsic ground of the loan itself. On the other hand, we find a rather general, though negative, authorization of interest taking on extrinsic grounds. Indeed, one such title, legalization by the State, is mentioned specifically. The whole

[1] Encyclical, "Vix Pervenit," 1745.

canon may be thus translated: "If a fungible thing (anything that is consumed at first use and is replaceable in kind) is transferred to a person so as to become his property and later returnable only in the same kind (not identically) no profit may be taken by reason of the contract itself; nevertheless it is not *per se* unlawful to contract for the legal rate of interest, unless that be clearly exorbitant; nor is it wrong to agree upon a higher rate if there is at hand a just and proportionate title."

In brief, interest is not necessarily wrong if it does not exceed a reasonable legal rate; nor even if it does exceed the legal rate, provided that it is based upon adequate external grounds. Undoubtedly such grounds would include greater risk and the opportunity of larger alternative gains through investment.

All the theological discussion on the subject, and all the authoritative ecclesiastical declarations indicate, therefore, that interest on loans is to-day regarded as lawful because a loan is the economic equivalent of an investment. Evidently this is good logic and common sense. If it is right for the stockholder of a railway to receive dividends, it is equally right for the bondholder to receive interest. If it is right for a merchant to take from the gross returns of his business a sum sufficient to cover interest on his capital, it is equally right for the man from whom he has borrowed money for the enterprise to exact interest. The money in a loan is economically equivalent to, convertible into, concrete capital. It deserves, therefore, the same treatment and the same rewards. The fact that the investor undergoes a greater risk than the lender, and the fact that the former often performs labor in connection with the operation of his capital, have no bearing on the moral problem; for the investor is repaid for his extra risk and labor by the profits which he receives, and which the lender does not receive. As a mere recipient of interest, the investor undergoes no more risk nor exertion

than does the lender. His claim to interest is no better than that of the latter.

Interest on Productive Capital

On what ground does the Church or Catholic theological opinion justify interest on invested capital? on the shares of the stockholders in corporations? on the capital of the merchant and the manufacturer?

In the early Middle Ages the only recognized titles to gain from the ownership of property were labor and risk.[1] Down to the beginning of the fifteenth century substantially all the incomes of all classes could be explained and justified by one or other of these two titles; for the amount of capital in existence was inconsiderable, and the number of large personal incomes insignificant.

When, however, the traffic in rent charges and the operation of partnerships, especially the *contractus trinus,* or triple contract, had become fairly common, it was obvious that the profits from these practices could not be correctly attributed to either labor or risk. The person who bought, not the land itself, but the right to receive a portion of the rent thereof, and the person who became the silent member of a partnership, evidently performed no labor beyond that involved in making the contract. And their profits clearly exceeded a fair compensation for their risks, inasmuch as the profits produced a steady income. How then were they to be justified?

A few authorities maintained that such incomes had no justification. In the thirteenth century Henry of Ghent condemned the traffic in rent charges; in the sixteenth Dominicus Soto maintained that the returns to the silent partner in an enterprise ought not to exceed a fair equivalent for his risks; about the same time Pope Sixtus V denounced the triple contract as a form of usury. Nevertheless, the great majority of writers admitted that all

[1] Cf. St. Thomas, "Summa Theologica," 2a 2ae, q. 78, a. 2 et 3.

these transactions were morally lawful, and the gains therefrom just. For a time these writers employed merely negative and *a pari* arguments. Gains from rent charges, they pointed out, were essentially as licit as the net rent received by the owner of the land; and the interest received by a silent partner, even in a triple contract, had quite as sound a moral basis as rent charges. By the beginning of the seventeenth century the leading authorities were basing their defense of industrial interest on positive grounds. Lugo, Lessius, and Molina adduced the productivity of capital goods as a reason for allowing gains to the investor. Whether they regarded productivity as in itself a sufficient justification of interest, or merely as a necessary prerequisite to justification, cannot be determined with certainty.

At present the majority of Catholic writers seem to think that a formal defense of interest on capital is unnecessary. Apparently they assume that interest is justified by the mere productivity of capital. However, this view has never been explicitly approved by the Church. While she permits and authorizes interest, she does not define its precise moral basis.

So much for the teaching of ecclesiastical and ethical authorities. What are the objective reasons in favor of the capitalist's claim to interest? In this chapter we consider only the intrinsic reasons, those arising wholly out of the relations between the interest-receiver and the interest-payer. Before taking up the subject it may be well to point out the source from which interest comes, the class in the community that pays the interest to the capitalist. From the language sometimes used by Socialists it might be inferred that interest is taken from the laborer, and that if it were abolished he would be the chief if not the only beneficiary. This is incorrect. At any given time interest on producing capital is paid by the consumer. Those who purchase the products of industry

must give prices sufficiently high to provide interest in addition to the other expenses of production. Were interest abolished and the present system of private capital continued, the gain would be reaped mainly by the consumer in the form of lower prices; for the various capitalist directors of industry would bring about this result through their competitive efforts to increase sales. Only those laborers who were sufficiently organized and sufficiently alert to make effective demands for higher wages before the movement toward lower prices had got well under way, would obtain any direct benefit from the change. The great majority of laborers would gain far more as consumers than as wage earners. Speaking generally, then, we may say that the capitalist's gain is the consumer's loss, and the question of the justice of interest is a question between the capitalist and the consumer.

The intrinsic or individual grounds upon which the capitalist's claim to interest has been defended are mainly three: productivity, service, and abstinence. They will be considered in this order.

The Claims of Productivity

It is sometimes asserted that the capitalist has as good a right to interest as the farmer has to the offspring of his animals. Both are the products of the owner's property. In two respects, however, the comparison is inadequate and misleading. Since the owner of a female animal contributes labor or money or both toward her care during the period of gestation, his claim to the offspring is based in part upon these grounds, and only in part upon the title of interest. In the second place, the offspring is the definite and easily distinguishable product of its parent. But the sixty dollars derived as interest from the ownership of ten shares of railway stock, cannot be identified as the exact product of one thousand dollars of railway property. No man can tell whether this amount

of capital has contributed more or less than sixty dollars of value to the joint product, *i.e.*, railway services. The same is true of any other share or piece of concrete capital. All that we know is that the interest, be it five, six, seven, or some other per cent, describes the share of the product which goes to the owner of capital in the present conditions of industry. It is the conventional, not the actual and physical, product of capital.

Another faulty analogy is that drawn between the productivity of capital and the productivity of labor. Following the terminology of the economists, most persons think of land, labor, and capital as productive in the same sense. Hence the productivity of capital is easily assumed to have the same moral value as the productive action of human beings; and the right of the capitalist to a part of the product is put on the same moral basis as the right of the laborer. Yet the differences between the two kinds of productivity, and between the two moral claims to the product, are more important than their resemblances.

In the first place, there is an essential physical difference. As an instrument of production, labor is active, capital is passive. As regards its worth or dignity, labor is the expenditure of human energy, the output of a *person,* while capital is a material thing, standing apart from a personality, and possessing no human quality or human worth. These significant intrinsic or physical differences forbid any immediate inference that the moral claims of the owners of capital and labor are equally valid. We should expect to find that their moral claims are unequal.

This expectation is realized when we examine the bearing of the two kinds of productivity upon human welfare. In the exercise of productive effort the average laborer undergoes a sacrifice. He is engaged in a process that is ordinarily irksome. To require from him this toilsome expenditure of energy without compensation, would make him a mere instrument of his fellows. It would subordi-

nate him and his comfort to the aggrandizement of beings who are not his superiors but his moral equals. For he is a person; they are no more than persons. On the other hand, the capitalist as such, as the recipient of interest, performs no labor, painful or otherwise. Not the capitalist, but capital participates in the productive process. Even though the capitalist should receive no interest, the productive functioning of capital would not subordinate him to his fellows in the way that wageless labor would subordinate the laborer.

The precise and fundamental reason for according to the laborer his product is that this is the only rational rule of distribution. When a man makes a useful thing out of materials that are his, he has a strict right to the product simply because there is no other reasonable method of distributing the goods and opportunities of the earth. If another individual, or society, were permitted to take his product, industry would be discouraged, idleness fostered, and reasonable life and self-development rendered impossible. Direful consequences of this magnitude would not follow the abolition of interest.

Perhaps the most important difference between the moral claims of capitalist and laborer is the fact that for the latter labor is the sole means of livelihood. Unless he is compensated for his product he will perish. But the capitalist has in addition to the interest that he receives the ability to work. Were interest abolished he would still be in as good a position as the laborer. The product of the laborer means to him the necessaries of life; the product of the capitalist means to him goods in excess of a mere livelihood. Consequently their claims to the product are unequal in vital importance and moral value.

The foregoing considerations show that even the claim of the laborer to his product is not based upon merely intrinsic grounds. It does not spring entirely from the mere fact that he has produced the product, from the mere

relation between producer and things produced. If this is true of labor-productivity we should expect to find it even more evident with regard to the productivity of capital; for the latter is passive instead of active, non-rational instead of human.

The expectation is well founded. Not a single conclusive argument can be brought forward to show that the productivity of capital directly and necessarily confers upon the capitalist a right to the interest-product. All the attempted arguments are reducible to two formulas: *res fructificat domino* (a thing fructifies to its owner) and "the effect follows its cause." The first of these was originally a legal rather than an ethical maxim; a rule by which the title was determined in the civil law, not a principle by which the right was determined in morals. The second is an irrelevant platitude. As a juristic principle, neither is self-evident. Why should the owner of a piece of capital, be it a house, a machine, or a share of railway stock, have a right to its product, when he has expended neither time, labor, money, nor inconvenience of any kind? To answer, "because the thing which produced the product belongs to him," is merely to beg the question. To answer, "because the effect follows the cause," is to make a statement which has nothing to do with the question. What we want to know is why the ownership of a productive thing gives a right to the product; why this particular effect should follow its cause in this particular way. To answer by repeating under the guise of sententious formulas the thesis to be proved, is scarcely satisfactory or convincing. To answer that if the capitalist were not given interest, industry and thrift would decrease and human welfare suffer, is to abandon the intrinsic argument entirely.

The Claims of Service

The second intrinsic ground upon which interest is

defended, is the *service* performed by the capitalist when he permits his capital to be used in production. Without capital, laborers and consumers would be unable to command more than a fraction of their present means of livelihood. From this point of view we see that the service in question is worth all that is paid in the form of interest. Nevertheless it does not follow that the capitalist has a claim in strict justice to any payment for this service. According to St. Thomas, a seller may not charge a buyer an extra amount merely because of the extra value attached to the commodity by the latter.[1] In other words, a man cannot justly be required to pay an unusual price for a benefit or advantage or service, when the seller undergoes no unusual deprivation. Father Lehmkuhl carries the principle further and declares that the seller has a right to compensation only when and to the extent that he undergoes a privation or undertakes a responsibility.[2] According to this rule, the capitalist would have no right to interest; for as mere interest-receiver he undergoes no privation. His risk and labor are remunerated in profits, while the responsibility of not withdrawing from production something that can continue in existence only by continuing in production, is scarcely deserving of a reward according to the canons of strict justice.

Whatever we may think of this argument from authority, we find it impossible to prove objectively that a man who renders a service to another has an intrinsic right to anything beyond compensation for the expenditure of money or labor involved in performing the service. The man who throws a life preserver to a drowning person may justly demand a payment for his trouble. On any recognized basis of compensation, this payment will not exceed a few dollars. Yet the man whose life is in danger will pay a million dollars for this service if he is extremely

[1] "Secunda Secondae," q. 77, a. 1, in corp.
[2] "Theologia Moralis," I, no. 1050.

rich. He will regard the service as worth this much to him. Has the man with the life preserver a right to exact such a payment? Has he a right to demand the full value of the service? No reasonable person would answer this question otherwise than in the negative. If the performer of the service may not charge the full value thereof, as measured by the estimate put upon it by the recipient, it would seem that he ought not to demand anything in excess of a fair price for his labor.

It would seem, then, that the capitalist has no moral claim to pure interest on the mere ground that the use of his capital in production constitutes a service to laborers and consumers. It would seem that he has no right to demand a payment for a costless service.

The Claims of Abstinence

The third and last of the intrinsic justifications of interest that we shall consider is *abstinence.* This argument is based upon the contention that the person who saves his money and invests it in the instruments of production undergoes a sacrifice in deferring to the future satisfactions that he might enjoy to-day. One hundred dollars now is worth as much as one hundred and five dollars a year hence. That is, when both are estimated from the viewpoint of the present. This sacrifice of present to future enjoyment which contributes a service to the community in the form of capital, creates a just claim upon the community to compensation in the form of interest. If the capitalist is not rewarded for this inconvenience he is, like the unpaid laborer, subordinated to the aggrandizement of his fellows.

Against this argument we may place the extreme refutation attempted by Ferdinand Lassalle:

"But the profit of capital is *the reward of abstinence.* Truly a happy phrase! European millionaires are ascetics, Indian penitents, modern St. Simeon Stylites, who,

perched on their columns, with withered features and arms and bodies thrust forward, hold out a plate to the passers-by that they may receive the wages of their privations! In the midst of this sacrosanct group, high above his fellow mortifiers of the flesh, stands the Holy House of Rothschild. That is the real truth about our present society! How could I have hitherto blundered on this point as I have?" [1]

Obviously this is a malevolently one-sided implication concerning the sources of capital. But it is scarcely less adequate than the explanation in opposition to which it has been quoted. Both fail to distinguish between the different kinds of savers, the different kinds of capital-owners. For the purposes of our inquiry savings may be divided into three classes.

First, those which are accumulated and invested automatically. Very rich persons save a great deal of money that they have no desire to spend, since they have already satisfied or safeguarded all the wants of which they are conscious. Evidently this kind of saving involves no real sacrifice. To it the words of Lassalle are substantially applicable, and the claim to interest for abstinence decidedly inapplicable.

Second, savings to provide for old age and other future contingencies which are estimated as more important than any of the purposes for which the money might now be expended. Were interest abolished this kind of saving would be even greater than it is at present; for a larger total would be required to equal the fund that is now provided through the addition of interest to the principal. In a no-interest régime one thousand dollars would have to be set aside every year in order total twenty-thousand dollars in twenty years; when interest is accumulated on the savings, a smaller annual amount will suffice to produce the same fund. Inasmuch as this class of persons

[1] "What is Capital?" p. 27.

would save in an even greater degree without interest, it is clear that they regard the sacrifice involved as fully compensated in the resulting provision for the future. In their case sacrifice is amply rewarded by accumulation. Their claim to additional compensation in the form of interest does not seem to have any valid basis. In the words of the late Professor Devas, "there is ample reward given without any need of any interest or dividend. For the workers with heads or hands keep the property intact, ready for the owner to consume whenever convenient, when he gets infirm or sick, or when his children have grown up, and can enjoy the property with him." [1]

The third kind of saving is that which is made by persons who could spend, and have some desire to spend, more on present satisfactions, and who have already provided for all future wants in accordance with the standards of necessaries and comforts that they have adopted. Their fund for the future is already sufficient to meet all those needs which seem weightier than their present unsatisfied wants. If the surplus in question is saved it will go to supply future desires which are no more important than those for which it might be expended now. In other words, the alternatives before the prospective saver are to procure a given amount of satisfaction to-day, or to defer the same degree of satisfaction to a distant day. In this case the inducement of interest will undoubtedly be necessary to bring about saving. As between equal amounts of satisfaction at different times, the average person will certainly prefer those of the present to those of the future. He will not decide in favor of the future unless the satisfactions then obtainable are to be greater in quantity. To this situation the rule that deferred enjoyments are worth less than present enjoyments, is strictly applicable. The increased quantity of future satisfaction which is necessary to turn the choice from the pres-

[1] "Political Economy," p. 507.

ent to the future, and to determine that the surplus shall be saved rather than spent, can be provided only through interest. In this way the accumulations of interest and savings will make the future fund equivalent to a larger amount of enjoyment or utility than could be obtained if the surplus were exchanged for the goods of the present. "Interest magnifies the distant object." Whenever this magnifying power seems sufficiently great to outweigh the advantage of present over future satisfactions, the surplus will be saved instead of spent.

Among the well-to-do there is probably a considerable number of persons who take this attitude toward a considerable part of their savings. Since they would not make these savings without the inducement of interest, they regard the latter as a necessary compensation for the sacrifice of present enjoyment. In a general way we may say that they have a strict right to this interest on the intrinsic ground of sacrifice. Inasmuch as the community benefits by the savings, it may quite as fairly be required to pay for the antecedent sacrifices of the savers as for the inconvenience undergone by the performer of any useful labor or service.

CHAPTER XIII

SOCIAL AND PRESUMPTIVE JUSTIFICATIONS OF INTEREST

As we saw in the last chapter, interest cannot be conclusively justified on the ground of either productivity or service. It is impossible to demonstrate that the capitalist has a strict right to interest because his capital produces interest, or because it renders a service to the laborer or the consumer. A part, probably a small part, of the interest now received can be fairly justified by the title of sacrifice. Some present owners of capital would not have saved had they not expected to receive interest. In their case interest may be regarded as a just compensation for the sacrifice that they underwent when they decided to save instead of consuming.

Limitations of the Sacrifice Principle

Nevertheless these men would suffer no injustice if interest were now to be abolished. Up to the moment of the change, they would have been in receipt of adequate compensation; thereafter, they would be in exactly the same position as when they originally chose to save rather than consume. They would still be able to sell their capital, and convert the proceeds to their immediate uses and pleasures. In this case they would obviously have no further claim upon the community for interest. On the other hand, they could retain the ownership of their capital, and postpone its consumption to some future time. In making this choice they would regard future as more important than present consumption, and the superiority of future enjoyment as sufficiently great to compensate

them for the sacrifice of postponement. Hence they would have no moral claim to interest on the ground of abstinence. In general, then, the sacrifice-justification of interest continues only so long as the interest continues. It extends only to the interest received by certain capitalists in certain circumstances, not to all interest in all circumstances. Therefore, it presents no moral obstacle to the complete abolition of interest.

Since probably the greater part of the interest now received cannot be justified on intrinsic grounds, and since that part of it which is thus justified could be abolished consistently with the rights of the recipients, let us see whether it is capable of justification for reasons of social welfare. Would its suppression be socially beneficial or socially detrimental?

The Value of Capital in a No-Interest Régime

The interest that we have in mind is pure interest, not undertaker's profit, nor insurance against risk, nor gross interest. Even if all pure interest were abolished the capitalist who loaned his money would still receive something from the borrower in addition to the repayment of the principal, while the active capitalist would get from the consumer more than the expenses of production. The former would require a premium of, say, one or two per cent to protect him against the loss of his loan. The latter would demand the same kind of insurance, and an additional sum to repay him for his labor and enterprise. None of these payments could be avoided in any system of privately directed production. The return whose suppression is considered here is that which the capitalist receives over and above these payments, and which in this country seems to be about three or four per cent. It is what the capitalist gets as capitalist.

Would capital still have value in a no-interest régime, and if so how would its value be determined? At present the lower limit of the value of productive capital, as of

all other artificial goods, is fixed in the long run by the cost of production. Capital instruments that do not bring this price will not continue to be made. In other words, cost of production is the governing factor of the value of capital from the side of supply. It would likewise fix the lower limit of value in a no-interest régime; only, the cost of producing capital instruments would then be somewhat lower than to-day, owing to the absence of an interest charge during the productive process.

But the cost of production is not a constant and accurate measure of the value of artificial capital. The true measure is found in the revenue or interest that a given piece of capital yields to its owners. If the current rate of interest is five per cent, a factory that brings in ten thousand dollars net return will have a value of about two hundred thousand dollars. This is the governing factor of value from the side of demand. In a no-interest economy the demand factor would be quite different. Capital instruments would be in demand, not as revenue producers, but as the concrete embodiments, the indispensable requisites, of saving and accumulation. For it is impossible that saving should in any considerable amount take the form of cash hoards. In the words of Sir Robert Giffen: "The accumulations of a single year, even taking it at one hundred and fifty millions only, . . . would absorb more than the entire metallic currency of the country [Great Britain]. They cannot, therefore, be made in cash." [1] The instruments of production would be sought and valued by savers for the same reason that safes and safety deposit boxes are in demand now. They would be the only means of carrying savings into the future, and they would necessarily bring a price sufficiently high to cover the cost of producing them. One man might deposit his savings in a bank, whence they would be borrowed without interest by some director of industry. When the owner of the savings desired to recover

[1] "Growth of Capital," p. 152.

them he could obtain from the bank the fund of some other depositor, or get the proceeds of the sale of the concrete capital in which his own savings had been embodied. Another man might prefer to invest his savings directly in a building, a machine, or a mercantile business, whence he could recover them later from the sale of the property. Hence the absence of interest would not change essentially the processes of saving or investment. Capital would still have value, but its valuation from the demand side would rest on a different basis. It would be valued not in proportion to its power to yield interest, but because of its capacity to become a receptacle for savings, and to carry consuming power into the future.

The question whether the abolition of interest by the State would be socially helpful or socially harmful is mainly, though not entirely, a question of the supply of capital. If the community would not have sufficient capital to provide for all its needs, actual and progressive, the suppression of interest would obviously be a bad policy. Most economists seem inclined to think that this condition would be realized; that, without the inducement of interest, men would neither make new savings nor conserve existing capital in sufficient quantity to supply the wants of society.

Whether Interest Is Necessary

Perhaps the best known recent statement of the opinion that interest is inevitable, appears in Professor Irving Fisher's "The Rate of Interest." [1] While he does not assert explicity that sufficient capital would not be provided without interest, and even admits that in certain circumstances interest might disappear, the general logic and implications of his argument are decidedly against the supposition that society could ever get along without interest. He lays such stress upon the factor of "impatience," *i.e.*, man's unwillingness to wait for future goods,

[1] New York, 1907.

as to suggest strongly that other causes of interest, and the number of savers free from "impatience," are quite insignificant. Now, if "impatience" were the only cause of interest the latter must continue as long as "impatience" continues; and if practically all savers, actual and possible, are completely dominated by "impatience" the abolition of interest would be socially disastrous. However, neither of these assumptions is demonstrable. We have just seen that the present rate of interest has other causes than "impatience"; that a large proportion of savers insist upon getting the present rate, not because they require it to offset their "impatience," but simply because they can obtain it, and because they prefer it to the lower rate. Therefore, the mere existence of the present rate does not prove it to be necessary. By the same argument it is evident that the existence of any interest does not demonstrate the necessity of some interest. In the second place, the number of savers, present and prospective, whose "impatience" is so weak as to permit them to save without interest, is probably greater than the average reader of Professor Fisher's pages is led to assume. The question whether interest is necessary cannot be answered by reference to the general fact of human "impatience"; it demands a preliminary analysis of the extent to which "impatience" affects the different classes of savers.

With interest abolished, those persons who were willing to subordinate present secondary satisfactions to the primary future needs of themselves and their families, would save at least as much for these purposes as when they could have obtained interest. Most of them would probably save more in order to render their future provision as nearly as possible equal to what it would have been had interest accrued on their annual savings. Whether a person intended to leave all his accumulations, or part of them, or none of them to posterity, he would still desire them to be as large as they might have been in a régime

of interest. In order to realize this desire, he would be compelled to increase his savings. And it is reasonable to expect that this is precisely the course that would be followed by men of average thrift and foresight. Such men regard future necessaries and comforts, whether for themselves or their children, as more important than present non-essentials and luxuries. Interest or no interest, prudent men will subordinate the latter goods to the former, and will save money accordingly.

When, however, both future and present goods are of the same order and importance, the future is no longer preferred to the present. In that case the preference is reversed. The luxuries of to-day are more keenly prized than the luxuries of to-morrow. If the latter are to be preferred they must possess some advantage over the luxuries that might be obtained here and now. Such advantage may arise in various ways; for example, when a man decides that he will have more leisure for a foreign journey two years hence than this year, or when he prefers a large amount of future enjoyment at one time to present satisfactions taken in small doses. But the most general method of conferring advantage upon the secondary satisfactions of the future as compared with those of the present, is to increase the quantity. The majority of foreseeing persons are willing to pass by one hundred dollars' worth of enjoyment now for the sake of one hundred and five dollars' worth one year hence. This advantage of quantity is provided through the receipt of interest. It affects all those persons whose saving, as noted in the last chapter, involves a sacrifice for which the only adequate compensation is interest, and likewise all those persons who are in a position to choose between present and future luxuries. Were interest suppressed these classes of persons would cease to save for this kind of future goods.

According to Professor Taussig, "most saving is done by the well-to-do and the rich." [1] On this hypothesis it

[1] "Principles of Economics," II, 42.

seems probable that the abolition of interest would diminish the savings and capital of the community very considerably; for the accumulations of the wealthy are derived mainly from interest rather than from salaries. On the other hand, the suppression of interest should bring about a much wider diffusion of wealth. The sums formerly paid out as interest would be distributed among the masses of the population as increased wages and reduced costs of living. Hence the masses would possess an immensely increased capacity for saving, which might offset or even exceed the loss of saving-power among those who now receive interest-incomes.[1]

To sum up the results of our inquiry concerning the necessity of interest: The fact that men now receive interest does not prove that they would not save without interest. The fact that many men would certainly save without interest does not prove that a sufficient amount would be saved to provide the community with the necessary supply of capital. Whether the savings of those classes that increased their accumulations would counteract the decreases in the saving of the richer classes, is a question that admits of no definite or confident answer.

The State Is Justified in Permitting Interest

If we assume that the suppression of interest would cause a considerable decline in saving and capital, we must conclude that the community would be worse off than under the present system. To diminish greatly the instruments of production, and consequently the supply of goods for consumption, would create far more hardship than it would relieve. While "workless" incomes would be suppressed, and personal incomes more nearly equalized, the total amount available for distribution would probably be so much smaller as to cause a deterioration in the condition of every class. In this hypothesis the State would do wrong to abolish the system of interest.

[1] Cf. Hobson, "The Economics of Distribution," pp. 259-265.

If, however, we assume that no considerable amount of evil would follow, or that the balance of results would be favorable, the question of the proper action of the State becomes somewhat complex. In the first place, interest could not rightfully be suppressed while the private taking of rent remained. To adopt such a course would be to treat the receivers of property incomes inequitably. Landowners would continue to receive an income from their property, while capital owners would not; yet the moral claims of the former to income are no better than those of the latter. In the second place, the State would be obliged to compensate the owners of existing capital instruments for the decline in value which, as we have already seen, would occur when the item of interest was eliminated from the cost of reproducing such capital instruments. It would likewise be under moral obligation to compensate landowners for whatever decrease in value befell their property as a result of the abolition of rent.

Nevertheless, the practical difficulties confronting the legal abolition of interest are apparently so great as to render the attempt socially unwise and futile. In order to be effective the prohibition would have to be international. Were it enforced in only one or in a few countries, these would suffer far more through the flight of capital than they would gain through the abolition of interest. The technical obstacles in any case would be well nigh insuperable. If the attempt were made to suppress interest on producing capital, as well as on loans, the civil authorities would be unable to determine with any degree of precision what part of the gross returns of a business was pure interest and what part was a necessary compensation for risk and the labor of management. Should the State try to solve this problem by allowing the directors of industry varying salaries to correspond with their comparative degrees of efficiency, and different rates of insurance-payments to represent the different risks, it would inevitably make some allowances so low as

to discourage labor and enterprise, and others so high as to give the recipients a considerable amount of pure interest in the guise of profits and salaries. Should it fix a flat rate of salaries and profits, the more efficient undertakers would refuse to put forth their best efforts, and the more perilous enterprises would not be undertaken. The supervision of expenses, receipts, and other details of business that would be required to prevent evasion of the law, would not improbably cost more than the total amount now paid in the form of interest. On the other hand, if the method of suppression were confined to loans it would probably prove only a little less futile than the effort to abolish interest on productive capital. The great majority of those who were prevented from lending at interest would invest their money in stocks, land, buildings, and other forms of productive property. Moreover, it is probable that a large volume of loans would be made despite the prohibition. In the Middle Ages, when the amount of money available for lending was comparatively small, and when State and Church and public opinion were unanimous in favor of the policy, the legal prohibition of loans was only partially effective. Now that the supply of and the demand for loans have enormously increased, and interest is not definitely disapproved by the Church or the public, a similar effort by the State would undoubtedly prove a failure. Even if it were entirely successful it would only decrease, not abolish, interest on productive capital.[1]

In view of the manifold and grave uncertainties of the situation, it is practically certain that modern States are justified in permitting interest.

Civil Authorization Not Sufficient for the Individual

This justification of the attitude of the State does not

[1] Cf. Fisher, "Elementary Principles of Economics," pp. 396, 397. However, he does not discuss in this passage the possibility of suppressing interest on productive capital by a direct method.

of itself demonstrate that the capitalist has a right to accept interest. The civil law tolerates many actions which are morally wrong in the individual; for example, the payment of starvation wages, the extortion of unjust prices, and the traffic in immorality. Obviously, legal toleration does not *per se* nor always exonerate the individual offender. How, then, shall we justify the individual receiver of interest?

As already pointed out more than once, those persons who would not save without interest are justified on the ground of sacrifice. So long as the community desires their savings, and is willing to pay interest on them, the savers may take interest as the fair equivalent of the inconvenience that they undergo in performing this social service. The precise problem before us, then, is the justification of those savers and capitalists who do not need the inducement of interest, and whose functions of saving are sufficiently compensated without interest.

It is a fact that the civil law can sometimes create moral rights and obligations. For example; the statute requiring a person to repair losses that he has unintentionally inflicted upon his neighbor is held by the moral theologians to be binding *in conscience,* as soon as the matter has been adjudicated by the court. In other words, this civil regulation confers on the injured man property rights, and imposes on the morally inculpable injurer property obligations. The civil statutes also give moral validity to the title of prescription, or adverse possession. When the alien possessor has complied with the legal provisions that apply, he has a moral right to the property, even though the original owner should assert his claim at a later time. Some moral theologians maintain that a legal discharge in bankruptcy liberates the bankrupt from the moral obligation of satisfying his unpaid debts. Several other situations might be cited in which the State admittedly creates moral rights of individual ownership which would have

no definite existence in the absence of such legal action and authorization.[1]

This principle would seem to have received a particularly pertinent application for our inquiry in the doctrine of *praemium legale* as a title of interest on loans. In the "Opus Morale" of Ballerini-Palmieri can be found a long list of moral theologians living in the seventeenth and eighteenth centuries who maintained that the mere legal sanction of a certain rate of interest was a sufficient moral justification for the lender.[2] While holding to the traditional doctrine that interest was not capable of being justified on intrinsic grounds, these writers contended that by virtue of its power of eminent domain the State could transfer from the borrower to the lender the right to the interest paid on a loan. They did not mean that the State could arbitrarily take one man's property and hand it over to another, but only that, when it sanctioned interest for the public welfare, this extrinsic circumstance (like the other "extrinsic titles" approved by moralists) annulled the claim of the borrower in favor of the lender. In other words, they maintained that the money paid in loan-interest did not belong to either borrower or lender with certainty or definiteness until the matter was determined by economic conditions and extrinsic circumstances. Hence legal authorization for the common good was morally sufficient to award it to the lender. More than one of them declared that the State had the same right to determine this indeterminate property, to assign the ownership to the lender, that it had to transfer property titles by the device of prescription. As we have already seen, Canon 1523 of the New Code of Canon Law explicitly declares that it is not necessarily wrong to bargain for and accept the legal rate of interest.

And yet, neither this nor any of the other precedents

[1] Cf. Lehmkuhl, "Theologia Moralis," I, nos. 917, 965, 1035.
[2] Vol. 3, pp. 617-629; 2d ed.

cited above, is sufficient to give certain moral sanction to the practice of interest-taking by those persons who would continue to save if interest were abolished. All the acts of legal authorization that we have been considering relate to practices which are beneficial and necessary to society. Only in such cases has the State the moral authority to create or annul property rights. In the seventeenth and eighteenth centuries the legal authorization of a certain rate of interest made that rate morally lawful simply because this legal act gave formal and authoritative testimony to the social utility of interest-taking. The State merely declared the reasonableness and fixed the proper limits of the practice. The beneficent effect of interest-taking upon society was its underlying justification, was the ultimate fact which made it reasonable, and which gave to the action of the State moral value. Had the taking of interest on loans not been allowed the bulk of possible savings would either not have been saved at all, or would have been hoarded instead of converted into capital. And that money was badly needed in the commercial and industrial operations of the time. Hence the owners of it were in the position of persons who regarded saving and investing as a sacrifice for which interest was a necessary and proper compensation. To-day, however, there are millions of persons who would continue to perform both these functions without the inducement of interest. Therefore, the public good does not require that they should receive interest, nor that the State should have the power to clothe their interest-incomes with moral lawfulness. Inasmuch as the State is not certain that the abolition of interest would be socially expedient or practically possible, it is justified in permitting the institution to continue; but it has no power to affect the morality of interest-taking as an individual action.

How the Interest-Taker Is Justified

Although the interest received by the non-sacrifice savers

is not clearly justifiable on either intrinsic or social grounds, it is not utterly lacking in moral sanctions. In the first place, we have not contended that the intrinsic factors of productivity and service are *certainly* invalid morally. We have merely insisted that the moral worth of these titles has never been satisfactorily demonstrated. Possibly they have a greater and more definite efficacy than has yet been shown by their advocates. In more concrete terms, we admit that the productivity of capital and the service of the capitalist to the community, are possible and doubtful titles to interest. A doubtful title to property is, indeed, insufficient by itself. In the case of the interest receiver, however, the doubtful titles of productivity and service are reinforced by the fact of possession. Thus supplemented, they are sufficient to justify the non-sacrifice saver in giving himself the benefit of the doubt as regards the validity of his right to take interest. To be sure, this indefinite and uncertain claim could be overthrown by a more definite and positive title. But no such antagonistic title exists. Neither the consumer nor the laborer can show any conclusive reason why interest should go to him rather than to the capitalist. Hence the latter has at least a presumptive title. In the circumstances this is morally sufficient.

To this justification by presumption must be added a justification by analogy. The non-sacrifice savers seem to be in about the same position as those other agents of production whose rewards are out of proportion to their sacrifices. For example; the laborer of superior native ability gets as much compensation for the same quality and quantity of work as his companion who has only ordinary ability; and the exceptionally intelligent business man stands in the same relation to his less efficient competitor; yet the sacrifice undergone by the former of each pair is less than that suffered by the latter. It would seem that if the more efficient men may properly take the same rewards as those who make larger sacrifices, the non-sacri-

fice capitalist might lawfully accept the same interest as the man whose saving involves some sacrifice. On this principle the lenders who would not have invested their money in a productive enterprise were nevertheless permitted by the moralists of the post-medieval period to take advantage of the title of *lucrum cessans.* Although they had relinquished no opportunity of gain, nor made any sacrifice, they were put on the same moral level as sacrificing lenders, and allowed the same interest.

As a determinant of ownership, possession is the feeblest of all factors, and yet it is of considerable importance for a large proportion of incomes and property. In the distribution of the national product, as well as in the division of the original heritage of the earth, a large part is played by the title of first occupancy. Much of the product of industry is assigned to the agents of production mainly on the basis of inculpable possession. That is; it goes to its receivers automatically, in exchange for benefits to those who hand it over, and without excessive exploitation of their needs. Just as the first arrival on a piece of land may regard it as a no-man's territory, and make it his own by the mere device of appropriation, so the capitalist may get morally valid possession of interest. Sometimes, indeed, this debatable share, this no-man's share of the product of industry, is secured in some part by the consumer or the laborer. In such cases their title to it is just as valid as the title of the capitalist, notwithstanding the doubtful titles of productivity and service which the latter has in his favor. First occupancy and possession are the more decisive factors. In the great majority of instances, however, the capitalist is the first occupant, and therefore the lawful possessor of the interest-share.

The general justification of interest set forth in the immediately preceding paragraphs is supplemented in the case of the great majority of capital owners by the fact that their income from this source is relatively insig-

nificant. This is notoriously true of the vast majority of farmers. It is likewise the case with a very large proportion of small manufacturers and shopkeepers and of almost all wage earners who have investments. The interest received by all these classes can easily be justified as a necessary supplement to the inadequate return which they obtain for their labor.

Again, there is a large number of interest receivers who are entirely dependent upon this kind of income, and who obtain therefrom only a moderate livelihood. They are mainly children, aged persons, and invalids. Unlike the classes just described, they cannot justify their interest as a fair supplement to wages; however, they may reasonably claim it as their equitable or charitable share of the common heritage of the earth. If they did not receive this interest-income they would have to be supported by their relatives or by the State. For many reasons this would be a much less desirable arrangement. Consequently their general claim to interest is supplemented by considerations of human welfare.

The difference between the ethical character of the interest discussed in the last two paragraphs and of that received by persons who possess large incomes, is too often overlooked in technical treatises. Every man owning any productive goods is reckoned as a capitalist, and assumed to receive interest. If, however, a man's total interest-income is so small that when combined with all his other revenues it merely completes the equivalent of a decent living, it is surely of very little significance as interest. It stands in no such need of justification as the interest obtained by men whose incomes amount to, say, ten thousand dollars a year and upward.

Still another confirmatory title of interest is suggested by the following well known declaration of St. Thomas Aquinas: "The possession of riches is not in itself unlawful if the order of reason be observed: that a man should possess justly what he owns, and *use* it in a proper manner

for himself and others." [1] Neither just acquisition nor proper use is alone sufficient to render private possessions morally good. Both must be present. As we have seen above, the capitalist can appeal to certain presumptive and analogous titles which justify practically his acquisition of interest; but there can be no doubt that his claim and his moral power of disposal are considerably strengthened when he puts his interest-income to a proper use. One way of so using it is for a reasonable livelihood, as exemplified in the case of the farmers, business men, and non-workers whom we considered above. Those persons who receive incomes in excess of their reasonable needs could devote the surplus to religion, charity, education, and a great variety of altruistic purposes. We shall deal with this matter specifically in the chapter on the "Duty of Distributing Superfluous Wealth." In the meantime it is sufficient to note that the rich man who makes a benevolent use of his interest-income has a special reason for believing that his receipt of interest is justified.

The decisive value attributed to presumption, analogy, possession, and doubtful titles in our vindication of the capitalist's claim to interest, is no doubt disappointing to those persons who desire clear-cut mathematical rules and principles. Nevertheless, they are the only factors that seem to be available. While the title that they confer upon the interest receiver is not as definite nor as noble as that by which the laborer claims his wages or the business man his profits, it is morally sufficient. It will remain logically and ethically unshaken until more cogent arguments have been brought against it than have yet appeared in the denunciations of the income of the capitalist. And what is true of him is likewise true of the rent receiver, and of the person who profits by the "unearned increment" of land values. In all three cases the presumptive justification of "workless" incomes will probably remain valid as long as the present industrial system endures.

[1] "Contra Gentiles," lib. 3, c. 123.

CHAPTER XIV

COÖPERATION AS A PARTIAL SOLVENT OF CAPITALISM

INTEREST is not a return for labor. The majority of interest receivers are, indeed, regularly engaged at some active task, whether as day laborers, salaried employees, directors of industry, or members of the professions; but for these services they obtain specific and distinct compensation. The interest that they get comes to them solely in their capacity as owners of capital, independently of any personal activity. From the viewpoint of economic distribution, interest is a "workless" income. As such, it seems to challenge that ethical intuition which connects reward with effort and which inclines to regard income from any other source as not quite normal. Moreover, interest absorbs a large part of the national income, and perpetuates grave economic inequalities.[1]

[1] As stated on a preceding page, the combined interest and rent annually obtained by landowners and capital owners, and not needed for the replacement and creation of capital, would, in the hypothesis of equal distribution, add $262 per capita to the incomes of the 42,000,000 persons gainfully employed in the United States. In the case of a large proportion of these persons, however, the additions would be partially offset by the deductions which the change would cause in their total income. They would lose as capital owners a part, at least, of what they gained as workers. Nevertheless, the net gain to the great majority of the wage earners, particularly the lowest paid, would be very substantial, indeed.

Nor do present tendencies hold out any hope of an automatic reduction of the interest burden in the near future. According to Professor Taussig, "the absolute amount of income going to this [the capitalist] class tends to increase, and its share of the total income tends also to increase; whereas for the laborers, though their total income may increase, their share of income of society as a whole tends to decline," "Principles of Economics," II, 205.

Nevertheless, interest cannot be wholly abolished. As long as capital remains in private hands, its owners will demand and obtain interest. The only way of escape is by the road of Socialism, and this would prove a blind alley. As we have seen in a preceding chapter, Socialism is ethically and economically impossible.

May not the burdens and disadvantages of interest be mitigated or minimized? Such a result could conceivably be reached in two ways: the sum total of interest might be reduced, and the incomes derived from interest might be more widely distributed.

Reducing the Rate of Interest

No considerable diminution of the interest-volume can be expected through a decline in the interest rate. As far back as the middle of the eighteenth century, England and Holland were able to borrow money at three per cent. During the period that has since intervened, the rate has varied from three to six per cent on this class of loans. Between 1870 and 1890, the general rate of interest declined about two per cent, but it has risen since the latter date about one per cent.

On the other hand, the only definite grounds upon which a decline in the rate can be hoped for are either uncertain or unimportant. They are the rapid increase of capital, and the extension of government ownership and operation of natural monopolies.

The first is uncertain in its effects upon the rate of interest because the increased supply of capital is often neutralized by the process of substitution. That is, a large part of the new capital does not compete with and bring down the price of the old capital. Instead, it is absorbed in new inventions, new types of machinery, and new processes of production, all of which take the place of labor, thus tending to increase rather than diminish the demand for capital and the rate of interest. To be sure, the demand for capital thus arising has not always been

sufficient to offset the enlarged supply. Since the Industrial Revolution capital has at certain periods and in certain regions increased so rapidly that it could not all find employment in new forms and in old forms at the old rate. In some instances a decline in the rate of interest can be clearly traced to the disproportionately quick growth of capital. But this phenomenon has been far from uniform, and there is no indication that it will become so in the future. The possibilities of the process of substitution have been by no means exhausted.

The effects of government ownership are even more problematical. States and cities are, indeed, able to obtain capital more cheaply than private corporations for such public utilities as railways, telegraphs, tramways, and street lighting; and public ownership of all such concerns will probably become general in the not remote future. Nevertheless the social gain is not likely to be proportionate to the reduction of interest on this section of capital. A part, possibly a considerable part, of the saving in interest will be neutralized by the lower efficiency and greater cost of operation; for in this respect publicly managed are inferior to privately managed enterprises. Consequently, the charges to the public for the services rendered by these utilities cannot be reduced to the same degree as the rate of interest on the capital. On the other hand, the exclusion of private operating capital from this very large field of public utilities should increase competition among the various units of capital, and thus bring down its rewards. To what extent this would happen cannot be estimated even approximately. The only safe statement is that the decline in the general rate of interest would probably be slight.

Need for a Wider Distribution of Capital

The main hope of lightening the social burden of interest lies in the possible reduction in the necessary volume of capital, and especially in a wider distribution of interest-

incomes. In many parts of the industrial field there is a considerable waste of capital through unnecessary duplication. This means that a large amount of unnecessary interest is paid by the consumer in the form of unnecessarily high prices. Again, the owners of capital and receivers of interest constitute only a minority of the population of all countries, with the possible exception of the United States. The great majority of the wage earners in all lands possess no capital, and obtain no interest. Not only are their incomes small, often pitiably small, but their lack of capital deprives them of the security, confidence, and independence which are required for comfortable existence and efficient citizenship. They have no income from productive property to protect them against the cessation of wages. During periods of unemployment they are frequently compelled to have recourse to charity, and to forego many of the necessary comforts of life. So long as the bulk of the means of production remains in the hands of a distinct capitalist class, this demoralizing insecurity of the workers must continue as an essential part of our industrial system. While it might conceivably be eliminated through a comprehensive scheme of State insurance, this would substitute dependence upon the State for dependence upon the capitalist, and be much less desirable than ownership of income-bearing property.

The workers who possess no capital do not enjoy a normal and reasonable degree of independence, self-respect, or self-confidence. They have not sufficient control over the wage contract and the other conditions of employment, and they have nothing at all to say concerning the goods that they shall produce, or the persons to whom their product shall be sold. They lack the incentive to put forth their best efforts in production. They cannot satisfy adequately the instinct of property, the desire to control some of the determining forms of material possession. They are deprived of that consciousness of power which is generated exclusively by property, and which contributes

so powerfully toward the making of a contented and efficient life. They do not possess a normal amount of freedom in politics, nor in those civic and social relations which lie outside the spheres of industry and politics. In a word, the worker without capital has not sufficient power over the ordering of his own life.

The Essence of Coöperative Enterprise

The most effective means of lessening the volume of interest, and bringing about a wider distribution of capital, is to be found in coöperative enterprise. Coöperation in general denotes the unified action of a group of persons for a common end. A church, a debating club, a joint stock company, exemplifies coöperation in this sense. In the strict and technical sense, it has received various definitions. Professor Taussig declares that it "consists essentially in getting rid of the managing employer"; but this description is applicable only to coöperatives of production. "A combination of individuals to economize by buying in common, or increase their profits by selling in common" (Encyclopedia Britannica) is likewise too narrow, since it fits only distributive and agricultural coöperation. According to C. R. Fay, a coöperative society is "an association for the purpose of joint trading, originating among the weak, and conducted always in an unselfish spirit." If the word, "trading" be stretched to comprehend manufacturing as well as commercial activities, Fay's definition is fairly satisfactory. The distinguishing circumstance, "originating among the weak," is also emphasized by Father Pesch in his statement that the essence, aim, and meaning of coöperation are to be found in "a combination of the economically weak in common efforts for the security and betterment of their condition." [1] In order to give the proper connotation for our purpose, we shall define coöperation as, that joint economic action which seeks to obtain for a relatively weak

[1] "Lehrbuch der Nationaloekonomie," III, 517.

group all or part of the profits and interest which in the ordinary capitalist enterprise are taken by a small and different group. This formula puts in the foreground the important fact that in every form of coöperative effort, some interest or profits, or both, are diverted from those who would have received them under purely capitalistic arrangements, and distributed among a larger number of persons. Thus it indicates the bearing of coöperation upon the social burden of interest.

From the viewpoint of economic function, coöperation may be divided into two general kinds, producers' and consumers'. The best example of the former is a wage earners' productive society; of the latter, a coöperative store. Credit coöperatives and agricultural coöperatives fall mainly under the former head, inasmuch as their principal object is to assist production, and to benefit men as producers rather than as consumers. Hence from the viewpoint of type, coöperation may be classified as credit, agricultural, distributive, and productive.

Coöperative Credit Societies

A coöperative credit society is a bank controlled by the persons who patronize it, and lending on personal rather than material security. Such banks are intended almost exclusively for the relatively helpless borrower, as the small farmer, artisan, shopkeeper, and the small man generally. Fundamentally they are associations of neighbors who combine their resources and their credit in order to obtain loans on better terms than are accorded by the ordinary commercial banks. The capital is derived partly from the sale of shares of stock, partly from deposits, and partly from borrowed money. In Germany, where credit associations have been more widely extended and more highly developed than in any other country, they are of two kinds, named after their respective founders, Schulze-Delitzsch and Raiffeisen. The former operates chiefly in the cities, serves the middle classes rather than

the very poor, requires all its members to subscribe for capital stock, commits them to a long course of saving, and thus develops their interest as lenders. The Raiffeisen societies have, as a rule, very little share capital, exist chiefly in the country districts, especially among the poorest of the peasantry, are based mostly on personal credit, and do not profess to encourage greatly the saving and lending activities of their members. Both forms of association loan money to their members at lower rates of interest than these persons could obtain elsewhere. Hence credit coöperation directly reduces the burden of interest.

Over and over again in Ireland, Russia, Denmark, Germany, India, etc., whole villages have been freed from the hands of land sharks and usurers, and turned from backward, poverty-stricken conditions into flourishing and progressive communities by coöperative credit societies. Some form of coöperative banking is well established in every important country of Europe, except Great Britain. Its absence from Great Britain is apparently due to the credit system provided by the large landholders, to the scarcity of peasant proprietors, and to general lack of initiative. It is especially strong in Italy, Belgium, and Austria, and it has made a promising beginning in Ireland. In every country in which it has obtained a foothold, it gives indication of steady and continuous progress. Nevertheless it is subject to definite limits. It can never make much headway among that class of persons whose material resources are sufficiently large and palpable to command loans on the usual terms offered by the commercial banks. As a rule, these terms are quite as favorable as those available through the coöperative credit associations. It is only because the poorer men cannot obtain loans from the commercial banks on the prevailing conditions that they are impelled to have recourse to the coöperative associations.

In the United States coöperative credit societies are known as "Credit Unions." Their number has increased

rapidly in the last few years, being now more than three hundred. The Labor Banks, now numbering upwards of forty, and having assets of more than $150,000,000, are organized and owned by the labor unions. They exhibit one important coöperative feature: dividends on stock are limited to ten per cent, the surplus being used for the benefit of borrowers.

Coöperative Agricultural Societies

The chief operations of agricultural coöperative societies are manufacturing, marketing and purchasing. In the first named field the most important example is the coöperative dairy. The owners of cows hold the stock or shares of the concern, and in addition to dividends receive profits in proportion to the amount of milk that they supply. In Ireland and some other countries, a portion of the profits goes to the employees of the dairy as a dividend on wages. Other productive coöperatives of agriculture are found in cheese making, bacon curing, distilling, and wine making. All are conducted on the same general principles as the coöperative dairy.

Through the marketing societies and purchasing societies, the farmers are enabled to sell their products to better advantage, and to obtain materials needed for carrying on agricultural operations more cheaply than would be possible by isolated individual action. Some of the products marketed by the selling societies are eggs, milk, poultry, fruit, vegetables, live stock, and various kinds of grain. The purchasing societies supply for the most part manures, seeds, and machinery. Occasionally they buy the most costly machinery in such a way that the association becomes the corporate owner of the implements. In these cases the individual members have only the use of the machines, but they would be unable to enjoy even that advantage were it not for the intervention of the coöperative society. This arrangement exemplifies not only coöperative buying but coöperative ownership.

Agricultural coöperation has become most widely extended in Denmark, and has displayed its most striking possibilities in Ireland. Relatively to its population, the former country has more farmers in coöperative societies, and has derived more profit therefrom, than any other nation. The rapid growth and achievements of agricultural coöperation in the peculiarly unfavorable circumstances of Ireland constitute the most convincing proof to be found anywhere of the essential soundness and efficacy of the movement. Various forms of rural coöperative societies are solidly established in Germany, France, Belgium, Italy, and Switzerland. At the beginning of the year 1926 there were approximately 12,000 active farmers' coöperative associations in the United States, having a total membership of about 2,700,000. The associations conducted marketing operations in grain, dairy products, live stock, cotton, tobacco, fruits and vegetables, wool, poultry and poultry products, nuts and forage crops. Almost half the marketing societies carried on coöperative buying. The total business of the farmers' coöperatives in 1925 amounted to $2,400,000,000.

The extent of the coöperative business done in the three Western grain provinces is shown by the report of the Canadian Coöperative Wheat Producers, Ltd., the central selling agency of the Alberta, Saskatchewan and Manitoba pools. This organization handled 187,200,000 bushels of wheat out of a total of 357,559,637 bushels actually delivered to all agencies, private and coöperative—over 52 per cent of the total deliveries.

The transformation in the rural life of more than one European community through coöperation has amounted to little less than a revolution. Higher standards of agricultural products and production have been set up and maintained, better methods of farming have been inculcated and enforced, and the whole social, moral, and civic life of the people has been raised to a higher level. From the viewpoint of material gain, the chief benefits of agri-

cultural coöperation have been the elimination of unnecessary middlemen, and the economies of buying in large quantities, selling in the best markets, and employing the most efficient implements. As compared with farming conducted on a large scale, the small farm possesses certain advantages, and is subject to certain disadvantages. It is less wasteful, permits greater attention to details, and makes a greater appeal to the self-interest of the cultivator; but the small farmer cannot afford to buy the best machinery, nor is he in a position to carry on to the best advantage the commercial features of his occupation, such as borrowing, buying, and marketing. Coöperation frees him from all these handicaps. "The coöperative community . . . is one in which groups of humble men combine their efforts, and to some extent their resources, in order to secure for themselves those advantages in industry which the masters of capital derive from the organization of labor, from the use of costly machinery, and from the economies of business when done on a large scale. They apply in their industry the methods by which the fortunes of the magnates in commerce and manufacture are made." These words, uttered by a prominent member of the Irish coöperative movement, summarize the aims and achievements of agricultural coöperation in every country of Europe in which it has obtained a strong foothold. In every such community the small farm has gained at the expense of the large farm system. Finally, agricultural coöperation reduces the burden of interest by eliminating some unnecessary capital, stimulates saving among the tillers of the soil by providing a ready and safe means of investment, and in manifold ways contributes materially toward a better distribution of wealth.

Coöperative Mercantile Societies

Coöperative stores are organized by and for consumers. In every country they follow rather closely the Rochdale system, so called from the English town in which the first

store of this kind was established in 1844. The members of the coöperative society furnish the capital, and receive thereon interest at the prevailing rate, usually five per cent. The stores sell goods at about the same prices as their privately owned competitors, but return a dividend on the purchases of all those customers who are members of the society. The dividends are provided from the surplus which remains after wages, interest on the capital stock, and all other expenses have been paid. In some coöperative stores non-members receive a dividend on their purchases at half the rate accorded to members of the society, but only on condition that these payments shall be invested in the capital stock of the enterprise. And the members themselves are strongly urged to make this disposition of their purchase-dividends. Since the latter are paid only quarterly, the coöperative store exercises a considerable influence toward inducing its patrons to save and to become small capitalists.

In Great Britain the vast majority of the retail stores have been federated into two great wholesale societies, one in England and the other in Scotland. The retail stores provide the capital, and participate in the profits according to the amounts purchased, just as the individual consumers furnish the capital and share the profits of the retail establishments. The Scottish Wholesale Society divides a part of the profits among its employees. Besides their operations as jobbers, the wholesale societies are bankers for the retail stores, and own and operate factories, farms, warehouses, and steamships. Many of the retail coöperatives likewise carry on productive enterprises, such as milling, tailoring bread making, and the manufacture of boots, shoes, and other commodities, and some of them build, sell, and rent cottages, and lend money to members who desire to obtain homes.

The coöperative store movement has made greatest progress in its original home, Great Britain. In 1924, the retail consumers' societies of that country had upward

of four and three-quarter million members—equivalent to approximately that number of families,—did a total business of over $800,000,000 and returned dividends on purchases to the amount of $65,000,000. The latter figure implies that the customers received back about eight cents out of every dollar that they expended. In its report on "Coöperation in Foreign Countries" (1925) the Federal Trade Commission reviews the coöperative store movement in some thirty countries of Europe and Asia and presents for the most part a record of steady progress. The last few years have witnessed a considerable increase in the number of coöperative stores in Canada and the United States. Owing, however, to the exaggerated individualism and the superior economic conditions obtaining in these two countries, no rapid increase can be expected in consumers' coöperation.

As in the case of agricultural coöperation, the money benefits accruing to the members of the coöperative stores consist mainly of profits rather than interest. In the absence of the store societies, these profits would have gone for the most part to middlemen as payments for the risks and labor of conducting privately owned establishments. Had the members invested an equal amount in other enterprises they could, indeed, have obtained about the same rate and amount of interest, but in the absence of the coöperative stores their inducements and opportunities to save would have been much smaller. For it must be kept in mind that a very large part of the capital stock in the coöperative stores is derived from the members' dividends on their purchases at such stores, and would not have come into existence at all without these establishments. The gains of the coöperative stores, whether classified as profits or as interest, are evidently a not inconsiderable indication of a better distribution of wealth.

In recent years coöperative housing has made great progress in several European countries and a promising beginning in the United States. Sometimes the stock in these

concerns is owned entirely by the occupiers of the houses; sometimes a part of it is held by other persons. As a general rule, the majority ownership and the management are retained by the tenants. By the terms of a Wisconsin law, any municipality or county may purchase stock in coöperative housing enterprises. Under this authorization the Garden Homes Company has been organized in Milwaukee. The preferred stock may be owned by anyone, but the common stock is reserved for the occupants of the houses. Each of the latter must subscribe for an amount of the common stock equal to the cost of his house or apartment. In return he obtains property in that much housing, but not title to the specific dwelling that he occupies. Hence, the increases in land value go to the coöperative housing society, to the occupiers of the houses collectively, instead of individually. Ultimately the preferred stock will be retired and the common stock, held only by house occupiers, will have exclusive control of the enterprise. The common stock is procured by a system of monthly payments, spread over a period of twenty years. The purchaser occupies a house as soon as he has made the first payment.

Coöperation in Production

Coöperative production has occasionally been pronounced a failure. This judgment is too sweeping and too severe. "As a matter of fact," says a prominent London weekly, "the coöperators' success has been even more remarkable in production than in distribution. The coöperative movement runs five of the largest of our flour mills; it has, among others, the very largest of our boot factories; it makes cotton cloth and woolens, and all sorts of clothing; it has even a corset factory of its own; it turns out huge quantities of soap; it makes every article of household furniture; it produces cocoa and confectionery; it grows its own fruit and makes its own jams; it has one of the largest tobacco factories, and so

on." Obviously this passage refers to that kind of productive coöperation which is carried on by the stores, not to productive concerns owned and managed by the workers therein employed. Nevertheless the enterprises in question are coöperatively managed, and hence exemplify coöperation rather than private and competitive industry. They ought not to be left out of any statement of the field occupied by coöperative production. The limitations and possibilities of coöperation in production can best be set forth by considering its forms separately.

The "perfect" form occurs when all the workers engaged in a concern own all the share capital, control the entire management, and receive the whole of the wages, profits, and interest. In this field the failures have been much more numerous and conspicuous than the successes.

In 1920, Great Britain had 105 coöperative productive societies, but none of them was owned exclusively by its working force. While the total number of employees was 11,500, the shareholders exceeded 43,000. The Franklin Coöperative Creamery, of Minneapolis, may not improperly be cited as an example of this limited sort of producers' coöperation. Although its stockholders include thousands of persons who are not its employees, it was organized by milk drivers who had lost a strike against the private milk distributing concerns. Apparently, the employees have the dominant voice in its operation. Although less than six years have elapsed since this coöperative concern began to do business, it has now two creameries and constitutes the largest milk distributing plant in the Northwest. In 1925 its sales exceeded three and one-half million dollars and it paid a seven per cent dividend. The property is worth about one and one quarter million dollars. The society conducts a clinic and a training school in coöperative management. Its record provides substantial ground for the belief that the union workers of the United States have the capacity to establish and carry on successfully a great variety and quantity

of productive coöperative enterprises, if they are willing to bring to the task a reasonable supply of energy, patience, and confidence.

A second kind of productive coöperation is found in the arrangement known as co-partnership. This is "the system under which, in the first place, a substantial and known share of the profit of a business belongs to the workers in it, not by right of any shares they may hold, or any other title, but simply by right of the labor they have contributed to make the profit; and, in the second place, every worker is at liberty to invest his profit, or any other savings, in shares of the society or company, and so become a member entitled to vote on the affairs of the body which employs him." [1] So far as its first, or profit sharing, feature is concerned, co-partnership is not genuine coöperation, for it includes neither ownership of capital nor management of the business. Coöperative action begins only with the adoption of the second element. In most of the existing co-partnership concerns, all the employees are urged, and many of them required to invest at least a part of their profits in the capital stock. Probably the most conspicuous example of co-partnership in the United States is that which has been established in the Philadelphia Rapid Transit. Through a plan of coöperation with the management, sharing in resultant profits, and investment of their profits, the employees have within the space of fifteen years become owners of 220,000 of the 600,000 shares of stock issued by that company. The value of the employee holdings exceeds $12,000,000 upon which the annual dividends are almost $900,000. The employees are represented on the board of directors, and, according to the President of the company, Mr. Mitten, have "practical control" of the concern. In his opinion, the plan is applicable to all the great industries of the country. He maintains that it would enable the railroad employees and the anthracite coal workers to obtain control

[1] Schloss, "Methods of Industrial Remuneration," pp. 353, 354.

of their respective industries in ten years, and the bituminous wage earners to attain a similar position within fifteen years.

As already noted, the coöperative stores exemplify a third type of coöperative production. In some cases the productive concern is under the management of a local retail establishment, but the great majority of them are conducted by the English and Scottish Wholesale Societies. As regards the employees of these enterprises, the arrangement is not true coöperation, since they have no part in the ownership of the capital. The Scottish Wholesale Society, as we have seen, permits the employees of its productive works to share in the profits thereof; nevertheless it does not admit them as stockholders, nor give them any voice in the management. In all cases the workers may, indeed, become owners of stock in their local retail stores. Since the latter are stockholders in the wholesale societies, which in turn own the productive enterprises, the workers have a certain indirect and attenuated proprietorship in the productive concerns. But they derive therefrom no dividends. All the interest and most of the profits of the productive establishments are taken by the wholesale and retail stores. For it is the theory of the wholesale societies that the employees in the works of production should share in the gains thereof only as consumers. They are to profit only in the same way and to the same extent as other consumer-members of the local retail establishments.

The most effective and beneficial form of coöperative production is evidently that which has been described as the "perfect" type. Were all production organized on this plan, the social burden of interest would be insignificant, industrial despotism would be ended, and industrial democracy realized. As things are, however, the establishments exemplifying this type are of small importance. Their increase and expansion are impeded by lack of directive ability and of capital, and the risk to the

workers' savings. Yet none of these obstacles is necessarily insuperable. Directive ability can be developed in the course of time, just as it was in the coöperative stores. Capital can be obtained fast enough perhaps to keep pace with the supply of directive ability and the spirit of coöperation. The risk undertaken by workers who put their savings into productive concerns owned and managed by themselves need not be greater than that now borne by investors in private enterprises of the same kind. There is no essential reason why the former should not provide the same profits and insurance against business risks as the latter. While the employees assume none of the risks of capitalistic industry, neither do they receive any of the profits. If the coöperative factory exhibits the same degree of business efficiency as the private enterprise it will necessarily afford the workers adequate protection for their savings and capital. Indeed, if "perfect" coöperative production is to be successful at all its profits will be larger than those of the capitalistic concern, owing to the greater interest taken by the workers in their tasks, and in the management of the business.

The labor co-partnership form of coöperation is susceptible of much wider and more rapid extension. It can be adapted readily to the very large as well as to the small and medium sized concerns. Since it requires the workers to own but a part of the capital, it can be established in any enterprise in which the capitalists show themselves willing and sympathetic. In every industrial corporation there are some employees who possess savings, and these can be considerably increased through the profit sharing feature of co-partnership. A very long time must, indeed, elapse before the workers in any of the large enterprises could get possession of all, or even of a controlling share of the capital, and a considerable time would be needed to educate and fit them for successful management.

Production under the direction of the coöperative stores can be extended faster than either of the other two forms,

and it has before it a very wide even though definitely limited field. The British wholesale societies have already shown themselves able to conduct with great success large manufacturing concerns, have trained and attracted an adequate number of competent leaders, and have accumulated so much capital that they have been obliged to invest several million pounds in other enterprises. The possible scope of the stores and their coöperative production has been well described by C. R. Fay: "distribution of goods for personal consumption, first, among the working class population, secondly, among the salaried classes who feel a homogeneity of professional interest; production by working class organizations alone (with rare exceptions in Italy) of all the goods which they distribute to their members. But this is its limit. Distribution among the remaining sections of the industrial population; production for distribution to these members; production of the instruments of production, and production for international trade; the services of transport and exchange: all these industrial departments are, so far as can be seen, permanently outside the domain of a store movement." [1]

The theory by which the stores attempt to justify the exclusion of the employees of their productive concerns from a share of the profits thereof is that all profits come ultimately from the pockets of the consumer, and should all return to that source. The defect in this theory is that it ignores the question whether the consumers ought not to be required to pay a sufficiently high price for their goods to provide the producers with profits in addition to wages. While the wholesale stores are the owners and managers of the capital in the productive enterprises, and on the capitalistic principle should obtain the profits, the question remains whether this is necessarily a sound principle, and whether it is in harmony with the theory and ideals of coöperation. In those concerns which have adopted the labor co-partnership scheme, the workers, even

[1] Op. cit., p. 341.

when they own none of the capital, are accorded a part of the profits. It is assumed that this is a fairer and wiser method of distribution than that which gives the laborer only wages, leaving all the profits to the manager-capitalist. This feature of co-partnership rests on the theory that the workers can, if they will, increase their efficiency and reduce the friction between themselves and their employer to such an extent as to make the profit-sharing arrangement a good thing for both parties. Consequently the profits obtained by the workers are a payment for this specific contribution to the prosperity of the business. Why should not this theory find recognition in productive enterprises conducted by the coöperative stores?

In the second place, the workers in these concerns ought to be permitted to participate in the capital ownership and management. They would thus be strongly encouraged to become better workers, to save more money, and to increase their capacity for initiative and self-government. Moreover, this arrangement would go farther than any other system toward reconciling the interests of producer and consumer. As producer, the worker would obtain, besides his wages, interest and profits up to the limit set by the competition of private productive concerns. As consumer, he would share in the profits and interest which would otherwise have gone to the private distributive enterprises. In this way the producer and consumer would each get the gains that were due specifically and respectively to his activity and efficiency.

Advantages and Prospects of Coöperation

At this point it will perhaps be well to sum up the advantages and to estimate the prospects of the coöperative movement. In all its forms coöperation eliminates some waste of capital and energy, and therefore transfers some interest and profits from a special capitalist and undertaking class to a larger and economically weaker group of persons. For it must be borne in mind that all coöp-

erative enterprises are conducted mainly by and for laborers or small farmers. Hence the system always makes directly for a better distribution of wealth. To a considerable extent it transfers capital ownership from those who do not themselves work with or upon capital to those who are so engaged; namely, the laborers and the farmers; thus it diminishes the unhealthful separation now existing between the owners and the users of the instruments of production. Coöperation has, in the second place, a very great educational value. It enables and induces the weaker members of economic society to combine and utilize energies and resources that would otherwise remain unused and undeveloped; and it greatly stimulates and fosters initiative, self-confidence, self-restraint, self-government, and the capacity for democracy. In other words, it vastly increases the development and efficiency of the individual. It likewise induces him to practice thrift, and frequently provides better fields for investment than would be open to him outside the coöperative movement. It diminishes selfishness and inculcates altruism; for no coöperative enterprise can succeed in which the individual members are not willing to make greater sacrifices for the common good than are ordinarily evoked by private enterprise. Precisely because coöperation makes such heavy demands upon the capacity for altruism, its progress always has been and must always continue to be relatively slow. Its fundamental and perhaps chief merit is that it does provide the mechanism and the atmosphere for a greater development of the altruistic spirit than is possible under any other economic system that has ever been tried.

By putting productive property into the hands of those who now possess little or nothing, coöperation promotes social stability and social progress. This statement is true in some degree of all forms of coöperation, but it applies with particular force to those forms which are carried on by the working classes. A steadily growing number of keen-sighted social students are coming to

realize that an industrial system which permits a comparatively small section of society to own the means of production and the instrumentalities of distribution, leaving to the great majority of the workers nothing but their labor power, is fundamentally unstable, and contains within itself the germs of inevitable dissolution. No mere adequacy of wages and other working conditions, and no mere security of the workers' livelihood, can permanently avert this danger, nor compensate the individual for the lack of power to determine those activities of life which depend upon the possession of property. Through coöperation this unnatural divorce of the users from the owners of capital can be minimized. The worker is converted from a mere wage earner to a wage earner plus a property owner, thus becoming a safer and more useful member of society. In a word, coöperation produces all the well recognized individual and social benefits which have in all ages been evoked by the "magic of property."

Finally, coöperation is a golden mean between individualism and Socialism. It includes all the good features and excludes all the evil features of both. On the one hand, it demands and develops individual initiative and self-reliance, makes the rewards of the individual depend upon his own efforts and efficiency, and gives him full ownership of specific pieces of property. On the other hand, it compels him to submerge much of the selfishness and indifference to the welfare of his fellows which characterize our individualist economy. It embraces all the good that is claimed for Socialism because it induces men to consider and to work earnestly for the common good, eliminates much of the waste of competitive industry, reduces and redistributes the burdens of profits and interest, and puts the workers in control of capital and industry. At the same time, it avoids the evils of an industrial despotism, of bureaucratic inefficiency, of individual indifference, and of an all-pervading collective ownership. The resemblances that Socialists sometimes profess to see be-

tween their system and coöperation are superficial and far less important than the differences. Under both arrangements the workers would, we are told, own and control the means of production; but the members of a coöperative society directly own and immediately control a *definite amount of specific capital,* which is essentially *private* property. In a Socialist régime the workers' ownership of capital would be collective, not private; general, not specific, while their control of the productive instruments with which they worked would be shared with other citizens. The latter would vastly outnumber the workers in any particular industry, and would be interested therein not as producers but as consumers. No less obvious are the differences in favor of coöperation as regards the vital matters of freedom, opportunity, and efficiency.

In so far as the future of coöperation can be predicted from its past, the outlook is distinctly encouraging. The success attained in credit, agriculture, and distribution, is a sufficient guaranty for these departments. While productive coöperation has experienced more failures than successes, it has finally shown itself to be sound in principle, and feasible in practice. Its extension will necessarily be slow, but this is exactly what should be expected by any one who is acquainted with the limitations of human nature, and the history of human progress. If a movement that is capable of modifying so profoundly the condition of the workers as is coöperative production, gave indications of increasing rapidly, we should be inclined to question its soundness and permanence. Experience has given us abundant proof that no mere system or machinery can effect a revolutionary improvement in economic conditions. No social system can do more than provide a favorable environment for the development of those individual capacities and energies which are the true and the only causal forces of betterment.

Nor is it to be expected that any of the other three forms of coöperation will ever cover the entire field to which it

might, absolutely speaking, be extended; or that coöperation as a whole will become the one industrial system of the future. Even if the latter contingency were possible it would not be desirable. The elements of our economic life, and the capacities of human nature, are too varied and too complex to be forced with advantage into any one system, whether capitalism, Socialism, or coöperation. Any single system or form of socio-economic organization would prove an intolerable obstacle to individual opportunity and social progress. Multiplicity and variety in social and industrial orders are required for an effective range of choices, and an adequate scope for human effort. In a general way the limits of coöperation in relation to the other forms of economic organization have been satisfactorily stated by Mr. Aneurin Williams: "I suggest, therefore, that where there are great monopolies, either natural or created by the combination of businesses, there you have a presumption in favor of State and municipal ownership. In those forms of industry where individuality is everything; where there are new inventions to make, or to develop or put on the market, or merely to adopt in some rapidly transformed industry; where the eye of the master is everything; where reference to a committee, or appeals from one official to another, would cause fatal delay: there is the natural sphere of individual enterprise pure and simple. Between these two extremes there is surely a great sphere for voluntary association to carry on commerce, manufacture, and retail trade, in circumstances where there is no natural monopoly, and where the routine of work is not rapidly changing, but on the whole fairly well established and constant." [1]

The province open to coöperation is, indeed, very large. If it were fully occupied the danger of a social revolution would be non-existent, and what remained of the socio-industrial problem would be relatively undisturbing and

[1] "Co-partnership and Profit-Sharing," p. 235.

unimportant. The "specialization of function" in industrial organization, as outlined by Mr. Williams, would give a balanced economy in which the three great socio-economic systems and principles would have full play, and each would be required to do its best in fair competition with the other two. Economic life would exhibit a diversity making strongly for social satisfaction and stability, inasmuch as no very large section of the industrial population would desire to overthrow the existing order Finally, the choice of three great systems of industry would offer the utmost opportunity and scope for the energies and the development of the individual. And this, when all is said, remains the supreme end of a just and efficient socio-industrial organization.

REFERENCES ON SECTION II

FISHER: The Rate of Interest. New York; 1907.
CASSEL: Nature and Necessity of Interest. London; 1903.
GONNER: Interest and Saving. London; 1906.
LANDRY: L'Intérêt du Capital. Paris; 1904.
MENGER: The Right to the Whole Produce of Labor. London; 1899.
CATHREIN-GETTELMAN: Socialism. St. Louis; 1904.
SKELTON: Socialism: A Critical Analysis. New York; 1911.
SPARGO: Socialism. Macmillan; 1906.
HILLQUIT-RYAN: Socialism: Promise or Menace? Macmillan; 1914.
SAVATIER: La Théorie Moderne du Capital et la Justice. Paris; 1898.
GARRIGUET: Régime du Travail. Paris; 1908.
FAY: Coöperation at Home and Abroad. London; 1908.
WILLIAMS: Copartnership and Profit-Sharing. Henry Holt & Co.; 1913.
O'BRIEN: An Essay on Mediaeval Economic Teaching. London; 1920.
WARBASSE: Coöperative Democracy. Macmillan; 1923.
FEDERAL TRADE COMMISSION: Coöperation in Foreign Countries, Washington; 1925
UNITED STATES DEPARTMENT OF LABOR: Consumers' Coöperative Societies in the United States in 1920. Washington; 1923.
Also the works of Taussig, Devas, Antoine and Hobson, which were given at the end of the introductory chapter.

SECTION III

THE MORAL ASPECT OF PROFITS

CHAPTER XV

THE NATURE OF PROFITS

WE have seen that rent goes to the landlord as the price of land use, while interest is received by the capitalist as the return for the use of capital. The two shares of the product which remain to be considered include an element which is absent from both rent and interest. The use for which profits and wages are paid comprises not merely the utilization of a productive factor, but the sustained exertion of the factor's owner. Like the landowner and the capitalist, the business man and the laborer put the productive factors which they control at the disposal of the industrial process; but they do so only when and so long as they exercise human activity. The shares that they receive are payments for the continuous output of human energy. No such significance attaches to rent or interest.

The Functions and Rewards of the Business Man

Who is the business man, and what is the nature of his share of the product of industry? Let us suppose that the salaried manager of a hat factory decides to set up a business of the same kind for himself. He wishes to become an entrepreneur, an undertaker, a director of industry, in more familiar language, a business man. Let us assume that he is without money, but that he commands extraordinary financial credit. He is able to borrow half a million dollars with which to organize, equip, and operate the new enterprise. Having selected a favorable site, he rents it on a long term lease, and erects thereon the necessary buildings. He installs all the necessary machinery and

other equipment, hires capable labor, and determines the kinds and quantities of hats for which he thinks that he can find a market. At the end of a year, he realizes that, after paying for labor of all sorts, returning interest to the capitalist and rent to the landowner, defraying the cost of repairs, and setting aside a fund to cover depreciation, he has left for himself the sum of ten thousand dollars. This is the return for his labor of organization and direction, and for the risk that he underwent. It constitutes the share called profits, sometimes specified as net profits.

This case is artificial, since it assumes that the business man is neither capitalist nor landowner in addition to his function as director of industry. It has, however, the advantage of distinguishing quite sharply the action of the business man as such. For the latter merely organizes, directs, and takes the risks of the industrial process, finds a market for the product, and receives in return neither rent nor interest but only profits. In point of fact, however, no one ever functions solely as business man. Always the business man owns some of the capital, and very often some of the land involved in his enterprise, and is the receiver not only of profits but of interest and rent. Thus, the farmer is a business man, but he is also a capitalist, and frequently a landowner. The grocer, the clothier, the manufacturer, and even the lawyer and the doctor own a part at least of the capital with which they operate, and sometimes they own the land. Nevertheless their rewards as business men can always be distinguished by finding out what remains after making due allowance for rent and interest.

It is a fact that many business men, especially those directing the smaller establishments, use the term profits to include rent and interest on their own property. In other words, they describe their entire income from the business as profits. In the present discussion, and throughout this book generally, profits are to be understood as comprising merely that part of the business man's

returns which he takes as the reward of his labor, and as insurance against the risks affecting his enterprise. Deduct from the business man's total income a sum which will cover interest on his capital at the prevailing rate and rent on his land, and you have left his income as business man, his profits.

The Amount of Profits

In a preceding chapter we have seen that where the conditions of capital are the same, there exists a fairly uniform rate of interest. No such uniformity obtains in the field of profits. Businesses subject to the same risks and requiring the same kind of management yield very different amounts of return to their directors. In a sense the business man may be regarded as the residual claimant of industry. This does not mean that he takes no profits until all the other agents of production have been fully remunerated, but that his share remains indeterminate until the end of the productive period, say, six months or a year, while the shares of the other agents are determined beforehand. At the end of the productive period, the business man may find that his profits are large, moderate, or small, while the landowner, the capitalist, and the laborer ordinarily obtain the precise amounts of rent, interest, and wages that they had expected to obtain. That there exists no definite upper limit to profits is proved by the history of modern millionaires. That there exists no rigid lower limit is proved by the large proportion of enterprises that meet with failure.

Nevertheless it would be wrong to infer that the volume of profits is governed by no law whatever, or that they show no tendency toward uniformity in any part of the industrial field. There is a calculated or preconceived minimum. No man will embark in business for himself unless he has reason to expect that it will yield him, in addition to protection against risks, an income as large as he could obtain by hiring his services to some one else. In

other words, contemplated profits must be at least equal to the income of the salaried business manager. No tendency toward uniformity of profits exists among very large enterprises nor among industries which are constantly adopting new methods and new inventions. In businesses of small and moderate size, and in those whose methods have become standardized, such as a retail grocery store, or a factory that turns out staple kinds of shoes, profits tend to be about the same in the great majority of establishments. In such industries the profits of the business man do not often exceed the salary that he could command as general manager in the same kind of business.

Profits in the Joint-Stock Company

Up to this point we have been considering the independent business man, the undertaker who manages his enterprise either alone or as a member of a partnership. In all such concerns it is easy to identify the business man. Who or where is the business man in a joint-stock company? Where are the profits, and who gets them?

Strictly speaking, there is no undertaker or business man in a corporation. His functions of ownership, responsibility, and direction are exercised by the whole body of stockholders through the board of directors and other officers. It is true that in very many, probably in most corporations, one or a very few of the largest stockholders dominate the policies of the concern, and exercise almost as much power and authority as though they were the sole owners. Neither these, however, nor any other officer in a corporation receives profits in the same sense as the independent owner of a business. For their active services the officers of the corporation are given salaries; for the risks that they undergo as owners of the stock they are compensated in the same way as all the other stockholders, that is, through a sufficiently high rate of dividend. For example, in railroads the bonds usually pay from four to five per cent, the stock from five to six per cent. The

bonds represent borrowed money, and are secured by a mortgage on the physical property. The stock represents the money invested by the owners, and is subject to all the risks of ownership; hence its holders require the protection which is afforded by the extra one per cent which they obtain over that paid to the bondholders.

While a corporation has no profits in the sense of a reward for directive activity or a protection against risk, it frequently possesses profits in the sense of a surplus which remains after costs and expenses of every kind have been defrayed. These profits are ordinarily distributed pro rata among the stockholders, either outright in the form of an extra dividend, or indirectly through enlargement of the property and business of the company. They are surplus gains or profits having the same intermittent and speculative character as the extra gains which the individual business man sometimes obtains in addition to those profits which are necessary to remunerate him for his labor and protect him against risks. They are not profits in the ordinary economic sense of the term.

CHAPTER XVI

THE PRINCIPAL CANONS OF DISTRIBUTIVE JUSTICE

BEFORE taking up the question of the morality of profits, it will be helpful, if not necessary, to consider the chief rules of justice that have been or might be adopted in distributing the product of industry among those who participate actively in the productive process. While the discussion is undertaken with particular reference to the rewards of the business man, it will also have an important bearing on the compensation of the wage earner. The morality of rent and interest depends upon other principles than those governing the remuneration of human activity; and it has been sufficiently treated in chapters xii and xiii. The canons of distribution applicable to our present study are mainly six in number: arithmetical equality; proportional needs; efforts and sacrifices; comparative productivity; relative scarcity; and human welfare.

The Canon of Equality

According to the rule of arithmetical equality, all persons who contribute to the product should receive the same amount of remuneration. With the exception of Bernard Shaw, no important writer defends this rule to-day. It is unjust because it would treat unequals equally. Although men are equal as moral entities, as human persons, they are unequal in desires, capacities, and powers. An income that would fully satisfy the needs of one man would meet only 75 per cent, or 50 per cent, of the capacities of another. To allot them equal amounts of income would be to treat them unequally with regard to the requisites

of life and self-development. To treat them unequally in these matters would be to treat them unequally as regards the real and only purpose of property rights. That purpose is welfare. Hence the equal moral claims of men which admittedly arise out of their moral equality must be construed as claims to equal degrees of welfare, not to equal amounts of external goods. To put the matter in another way, external goods are not welfare; they are only means to welfare; consequently their importance must be determined by their bearing upon the welfare of the individual. From every point of view, therefore, it is evident that justice in industrial distribution must be measured with reference to welfare rather than with reference to incomes, and that any scheme of distribution which provided equal incomes for all persons would be radically unjust.

Moreover, the rule of equal incomes is socially impracticable. It would deter the great majority of the more efficient from putting forth their best efforts and turning out their maximum product. As a consequence, the total volume of product would be so diminished as to render the share of the great majority of persons smaller than it would have been under a rational plan of unequal distribution.

The Canon of Needs

The second conceivable rule is that of proportional needs. It would require each person to be rewarded in accordance with his capacity to use goods reasonably. If the task of distribution were entirely independent of the process of production, this rule would be ideal; for it would treat men as equal in those respects in which they are equal; namely, as beings endowed with the dignity and the potencies of personality; and it would treat them as unequal in those respects in which they are unequal; that is, in their desires and capacities. But the relation between distribution and production cannot be left out of account. The product is distributed primarily among the agents of production only, and it must be so distributed as to

give due consideration to the moral claims of the producer as such. The latter has to be considered not merely as a person possessing needs, but as a person who has contributed something to the making of the product. Whence arise the questions of relative efforts and sacrifices, and relative productivity.

Since only those who have contributed to the product participate in the distribution thereof, it would seem that they should be rewarded in proportion to the efforts and sacrifices that they exert and undergo. As an example of varying effort, let us take two men of equal needs who perform the same labor in such a way that the first expends 90 per cent of his energy, while the second expends 60 per cent. As an example of varying sacrifice, let us take the ditch digger, and the driver who sits all day on the dump wagon. In both these examples the first man expends more painful exertion than the second. This would seem to make a difference in their moral desert. Justice would seem to require that in each case compensation should be proportionate to exertion rather than to needs. At any rate, the claims of needs should be modified to some extent in favor of the claims of exertion. It is upon the principle of efforts and sacrifices that we expect our eternal rewards to be based by the infinitely just Rewarder. The principle of needs is likewise in conflict with the principle of comparative productivity. Men generally demand rewards in proportion to their products and take it for granted that the demand is just.

Like the rule of arithmetical equality, the rule of proportional needs is not only incomplete ethically but impossible socially. Men's needs vary so widely and so imperceptibly that no human authority could use them as the basis of even an approximately accurate distribution. Moreover, any attempt to distribute rewards on this basis alone would be injurious to social welfare. It would lead to a great diminution in the productivity of the more

honest, the more energetic, and the more efficient among the agents of production.

The Canon of Efforts and Sacrifice

The third canon of distribution, that of efforts and sacrifices, would be ideally just if we could ignore the questions of needs and productivity. But we cannot think it just to reward equally two men who have expended the same quantity of painful exertion, but who differ in their needs and in their capacities of self-development. To do so would be to treat them unequally in the matter of welfare, which is the end and reason of all distribution. Consequently the principle of efforts and sacrifices must be modified by the principle of needs. Apparently it must also give way in some degree to the principle of comparative productivity. When two men of unequal powers make equal efforts, they turn out unequal amounts of product. Almost invariably the more productive man believes that he should receive a greater share.

It is evident that the rule of efforts and sacrifices, like those of equality and needs, could not be universally enforced in practice. With the exception of cases in which the worker is called upon regularly to make greater sacrifices owing to the disagreeable nature of the task, attempts to measure the amounts of effort and painful exertion put forth by the different agents of production would on the whole be little more than rough guesses. These would probably prove unsatisfactory to the majority. Moreover, the possessors of superior productive power would in most instances reject the principle of efforts and sacrifices and refuse to do their best work under its operation. The principle is incompatible with social welfare.

The three rules already considered are formally ethical, inasmuch as they are directly based upon the dignity and claims of personality. The two following are primarily physical and social; for they measure economic value rather

than ethical worth. Nevertheless, they must have a large place in any system which includes competition.

The Canon of Productivity

According to this rule, men should be rewarded in proportion to their contributions to the product. It is open to the obvious objection that it ignores the moral claims of needs and efforts. The needs and use-capacities of men do, indeed, bear some relation to their productive capacities, and the man who can produce more usually needs more; but the differences between the two elements are so great that distribution based solely upon productivity would fall far short of satisfying the demands of needs. Yet we have seen that needs constitute one of the fundamentally valid principles of distribution. Between productivity on the one hand and efforts and sacrifices on the other, there are likewise important differences. When men of equal productive power are performing the same kind of labor, superior amounts of product do represent superior amounts of effort; when the tasks differ in irksomeness or disagreeableness, the larger product may be brought into being with a smaller expenditure of painful exertion. If men are unequal in productive power their products are obviously not in proportion to their efforts. Consider two men whose natural physical abilities are so unequal that they can handle with equal effort shovels differing in capacity by fifty per cent. Instances of this kind are innumerable in industry. If these two men are rewarded according to productivity, one will get fifty per cent more compensation than the other. Yet the surplus received by the more fortunate man does not represent any action or quality for which he is personally responsible. It corresponds to no larger output of personal effort, no superior exercise of will, no greater personal desert. It is based solely upon a richer physical endowment.

It is clear, then, that the canon of productivity cannot be accepted to the exclusion of the principles of needs and

efforts. It is not the only ethical rule of distribution. Is it a valid partial rule? Superior productivity is frequently due to larger effort and expense put forth in study and in other forms of industrial preparation. In such cases it demands superior rewards by the title of efforts and sacrifices. Where, however, the greater productivity is due merely to higher native qualities, physical or mental, the greater reward is not easily justified on purely ethical grounds. For it represents no personal responsibility, will-effort, or creativeness. Nevertheless, the great majority of the more fortunately endowed think that they are unfairly treated unless they are recompensed in proportion to their products. Sometimes this conviction is due to the fact that such men wrongly attribute their larger product to greater efforts. In very many cases, however, the possessors of superior productive power believe that they should be rewarded in proportion to their products, regardless of any other principle or factor. Probably the true explanation of this belief is to be found in man's innate laziness. While the prevalence of the conviction that superior productivity constitutes a just title to superior compensation does create some kind of a presumption in favor of its correctness, it must be remembered that presumption is not proof. Weighing this presumption against the objective considerations on the opposite side of the argument, we take refuge in the conclusion that the ethical validity of the canon of productivity can neither be certainly proved nor certainly disproved.

Like the rules of equality, needs, and efforts, that of productivity cannot be universally enforced in practice. It is susceptible of accurate application among producers who perform the same kind of work with the same kind of instruments and equipment; for example, between two shovelers, two machine operators, two bookkeepers, two lawyers, two physicians. As a rule, it cannot be adequately applied to a product which is brought into existence through a combination of different processes. The

engine driver and the track repairer contribute to the common product, railway transportation; the bookkeeper and the machine tender coöperate in the production of hats; but we cannot tell in either case whether the first contributes more or less than the second, for the simple reason that we have no common measure of their contributions. Sometimes, however, we can compare the productivity of *individuals* engaged in different processes; that is, when both can be removed from the industry without causing it to come to a stop. Thus, it can be shown that a single engine driver produces more railway transportation than a single track repairer, because the labor of the latter is not indispensable to the hauling of a given load of cars. But no such comparison can be made as between the whole body of engine drivers and the whole body of track repairers, since both groups are indispensable to the production of railway transportation. Again, a man can be shown to exert superior productivity because he affects the productive process at more points and in a more intimate way than another who contributes to the product in a wholly different manner. While the surgeon and the attendant nurse are both necessary to a surgical operation, the former is clearly more productive than the latter. When due allowance is made for all such cases, the fact remains that in a large part of the industrial field it is simply impossible to determine remuneration by the rule of comparative productivity.

The Canon of Scarcity

It frequently happens that men attribute their larger rewards to larger productivity, when the true determining element is scarcity. The immediate reason why the engine driver receives more than the track repairer, the general manager more than the section foreman, the floorwalker more than the salesgirl, lies in the fact that the former kinds of labor are not so plentiful as the latter. Were

general managers relatively as abundant as section foremen their remuneration would be quite as low; and the same principle holds good of every pair of men whose occupations and products are different in kind. Yet the productivity of the general managers would remain as great as before. On the other hand, no matter how plentiful the more productive men may become, they can always command higher rewards than the less productive men in the same occupation, for the simple reason that their products are superior either in quantity or in quality. Men engaged upon the more skilled tasks are likewise mistaken when they attribute their greater compensation to the intrinsic excellence of their occupation. The fact is that the community cares nothing about the relative nobility, or ingenuity, or other inherent quality of industrial tasks or functions. It is concerned solely with products and results. As between two men performing the same task, superior efficiency receives a superior reward because it issues in a larger or better product. As between two men performing different tasks, superior skill receives superior compensation simply because it can command the greater compensation; and it commands larger compensation because it is scarce.

In most cases where scarcity is the immediate determinant of rewards, the ultimate determinant is, partly at least, some kind of sacrifice. One reason why chemists and civil engineers are rarer than common laborers is to be found in the greater cost of preparation. The scarcity of workers in occupations that require no special degree of skill is due to unusual hazards and unpleasantness. In so far as scarcity is caused by the uncommon sacrifices preceding or involved in an occupation, the resulting higher rewards obviously rest upon most solid ethical grounds. However, some part of the differences in scarcity is the result of unequal opportunities. If all young persons had equal facilities for obtaining college and technical training,

the supply of the higher kinds of labor would be considerably larger than it now is, and the compensation would be considerably smaller. Scarcity would then be determined by only three factors; namely, varying costs of training, varying degrees of danger and unattractiveness among occupations, and inequalities in the distribution of native ability. Competition would tend to apportion rewards according to efforts, sacrifices, and efficiency.

How can we justify the superior rewards of that scarcity which is not due to unusual costs of any sort, but merely to restricted opportunity? So far as society is concerned, the answer is simple: the practice pays. As to the possessors of the rarer kinds of ability, they are in about the same ethical position as those persons whose superior productivity is derived entirely from superior native endowment. In both cases the unusual rewards are due to factors outside the control of the recipients; to advantages which they themselves have not brought into existence. In the former case the decisive factor and advantage is opportunity; in the latter it is a gift of the Creator. Now we have seen that this sort of productivity cannot be proved to be immoral as a canon of distribution; the same statement will hold good of this sort of scarcity.

The Canon of Human Welfare

Human welfare means the well being of all persons, considered individually as well as collectively. It includes but is not identical with public welfare or even social welfare. Not infrequently the latter phrase is synonymous with the welfare of the dominant social group. Nothing of that sort is implied here. Hence we use the word "human" rather than "social."

The canon of human welfare includes and summarizes all that is implied in the five other canons. This is its individual aspect. It requires that all human beings be treated as persons, as possessed of natural rights: this is

equality. It demands that all industrial persons receive at least that amount of income which is necessary for decent living and reasonable self-development: this is a recognition of needs. The canon of human welfare declares that some consideration must be accorded to manifestations of good will by those who take part in the processes of industry; this is a recognition of efforts and sacrifices. And it gives reasonable recognition to the canons of productivity and scarcity.

Under its social aspect, the canon of human welfare authorizes the payment to every producer of that amount which is necessary to evoke his maximum *net* product. This is not necessarily the *absolute* maximum. The latter is not always worth the price demanded. In such a case human welfare may dictate an amount of compensation which is insufficient to call forth the absolute maximum. For example, a salary of $4,500 might induce a man to turn out a product which sells for $5,000, while a salary of $5,000 would evoke only the equivalent of $5,300. The latter is the absolute maximum; the former is the net maximum. Obviously it would be uneconomic and socially wasteful to give this man more than $4,500. That is the amount which would be assigned to him by the canon of human welfare. When the natural rights and the essential needs of the individual have been safeguarded, all additional compensation should be determined by the rule of maximum net results.

It is not contended here that this canon ought never to undergo modification or exception. Owing to the exceptional hazards and sacrifices of their occupation, a combination of producers might be justified in exacting larger compensation than would be accorded them by the canon of human welfare on the basis of net results in the present conditions of supply and scarcity. Unusual needs and capacities might also justify a strong group in pursuing the same course. All that is asserted at present is that in

conditions of average competition the canon of human welfare is not unjust. And this is all that is necessary as a preliminary to the discussion of just profits.[1]

[1] A very suggestive discussion of the psychology, the general principles, and the practical limitations of distributive justice, will be found in an article by Gustav Schmoller, entitled, "The Idea of Justice in Political Economy." It is No. 113 in the Publications of the American Academy of Political and Social Science.

CHAPTER XVII

JUST PROFITS IN CONDITIONS OF COMPETITION

We have seen that profits are that share of the product of industry which goes to the business man. They comprise that residual portion which he finds in his hands after he has made all expenditures and allowances for wages, salaries, interest at the prevailing rate on both his own and the borrowed capital, and all other proper charges. They constitute his compensation for his labor of direction, and for the risks of his enterprise and capital.

In the opinion of most Socialists, profits are immoral because they are an essential element of an unjust industrial system, and because they are not entirely based upon labor. Under Socialism the organizing and directing functions that are now performed by the business man, would be allotted to salaried superintendents and managers. Their compensation would include no payment for the risks of capital, and it would be fixed instead of indeterminate. Hence it would differ considerably from present-day profits.

To the assertion that profits are immoral a sufficient reply at this time is that Socialism has already been shown to be impracticable and inequitable. Consequently the system of private industry is essentially just, and profits, being a necessary element of the system, are essentially legitimate. The question of their morality is one of degree; not of kind. It will be considered under two principal heads: the right of the business man to obtain indefinitely large profits; and his right to a certain minimum of profits.

The Question of Indefinitely Large Profits

As a general rule, business men who face conditions of active competition have a right to all the profits that they can get, so long as they use fair business methods. This means not merely fair and honest conduct toward competitors, and buyers and sellers, but also just and humane treatment of labor in all the conditions of employment, especially in the matter of wages. When these conditions are fulfilled, the freedom to take indefinitely large profits is justified by the canon of human welfare. The great majority of business men in competitive industries do not receive incomes in excess of their reasonable needs. Their profits do not notably exceed the salaries that they could command as hired managers, and generally are not more than sufficient to reimburse them for the cost of education and business training, and to enable them to live in reasonable conformity with the standard of living to which they have become accustomed.

Efforts and sacrifices are reflected to some extent in the different amounts of profits received by different business men. When all due allowance is made for chance, productivity, and scarcity, a considerable proportion of profits is attributable to harder labor, greater risk and worry, and larger sacrifices. Like the principle of needs, that of efforts and sacrifices is a partial justification of the business man's remuneration.

Those profits which cannot be justified by either of the titles just mentioned are ethically warranted by the principles of productivity and scarcity. This is particularly true of those exceptionally large profits which can be traced specifically to that unusual ability which is exemplified in the invention and adoption of new methods and processes in progressive industries. The receivers of these large rewards have produced them in competition with less efficient business men. While the title of productivity does not entirely satisfy the seeker for decisive ethi-

cal sanctions, it is stronger morally than any opposing considerations that can be invoked. It is probably as strong as some other principles that we have to accept as the best attainable in the field of industrial ethics. It enjoys at least presumptive justification.

Nevertheless, it would seem that those business men who obtain exceptionally large profits could be reasonably required to transfer part of their gains to their employees in the form of higher wages, or to the consumers in the form of lower prices. Both of these methods have been followed by Henry Ford, the automobile manufacturer. Neither of them is certainly demanded by the principles of strict justice; they rest upon the feebler and less decisive principle of general equity or fairness.[1] This concept is less definite than those of charity and justice, and stands midway between them. It comes into operation when an action is obligatory on stricter grounds than those of charity, and yet cannot with certainty be required on grounds of justice. Notwithstanding its vagueness, it is sufficiently strong to make the average conscientious man feel uncomfortable if he neglects its prescriptions entirely. It has, therefore, sufficient practical value to deserve a place in the ethics of distribution. And it seems to have sufficient application to the problem before us to justify the statement that the receivers of exceptionally large profits are bound in equity to share them with those persons who have coöperated in producing and providing them, namely, wage earners and consumers.

In the field of profits the canon of human welfare is not only sound ethically but expedient socially. It permits the great majority of business men to obtain, if they can, sufficient remuneration to meet their reasonable needs. Whether it requires society to *guarantee* at least this amount of profit-income is a question that we shall examine presently. It encourages efforts, and makes for the maximum social product by permitting business men to

[1] Cf. pp. 212, 213 of Castelein's "Philosophia Moralis et Socialis."

retain all the profits that they can get in conditions of fair competition. Does it forbid any attempt by society to limit exceptionally large profit-incomes? If the limit were placed very high, say at $50,000 per year, it would not apparently check the productive efforts of the great majority of business men, since they never hope to pass that figure. Whether it would have a seriously discouraging effect upon the activity and ambition of those who do hope to reach, and of those who have already reached that level, is uncertain. Among business men who are approaching or who have passed the $50,000 annual profit-income mark, the desire to possess more money is frequently weaker as a motive to business activity than the longing for power and the driving force of habit. At any rate, the question is not very practical. Any sustained attempt to limit profits by law would require such extensive and minute supervision of business that the policy would prove to be socially intolerable and unprofitable. The espionage involved in the policy would provoke general resentment, and the amount of profits that could be diverted either to the State or to private persons would be relatively insignificant.

Thus far we have been considering the independent business man and business firm, not the joint-stock company or corporation. In the latter form of organization the labor of direction is remunerated by fixed salaries to the executive officers, while the risks of enterprise and capital are covered by the regular dividends received by the whole body of stockholders. Consequently the only revenues comparable to profits are the surplus gains that remain after wages, salaries, interest, dividends, rent, and all other expenses and charges have been met. These are apportioned through one process or another among the stockholders. On what ethical principle can they be thus distributed? The general principle of productivity, or superior productivity, is the only one available.

A corporation which, with fair methods of competition,

obtains surplus gains is evidently more efficient than its competitors. Instead of awarding the fruits of this superior efficienecy to the stockholders, it would be more economic and more scientific to distribute them among the active workers, from the president of the concern down to the humblest day laborer. This arrangement would return the surplus to those who had created it and would prove a powerful stimulus to sustained and increased efficiency. The stockholders, as such, do not produce the surplus. If they receive guaranteed and cumulative dividends, they have sufficient incentive to place and keep their money in the business. To pay them more than is necessary to attain these ends, is unprofitable and socially wasteful. It is contrary to the canon of human welfare. Of course, those stockholders who are also workers, whether they be officers of the corporation or ordinary employees, would and should share in the surplus; but in their capacity as workers, not as owners. Special rewards should be related to special efforts and productivity, not to mere proprietorship which is already sufficiently compensated. Until this obviously sensible plan is adopted, however, the division of surplus gains among the stockholders cannot be pronounced unjust.

The Question of Minimum Profits

Has the business man a strict right to a minimum living profit? In other words, have all business men a right to a sufficient volume of sales at sufficiently high prices to provide them with living profits or a decent livelihood? Such a right would imply a corresponding obligation upon the consumers, or upon society, to furnish the requisite amount of demand at the required prices. Is there such a right, and such an obligation?

No industrial right is absolute. They are all conditioned by the possibilities of the industrial system, and by the desires, capacities, and actions of the persons who enter into industrial relations with one another. As we shall

see later, this statement is true even of the right to a living wage. When the industrial resources are adequate, all persons of average ability who contribute a reasonable amount of labor to the productive process have a right to a decent livelihood on two conditions: first, that such labor is their only means of sustenance; and, second, that their labor is economically indispensable to those who utilize it or its product. "Economically indispensable" means that the beneficiary of the labor would rather give the equivalent of a decent livelihood for it than go without it. While both these conditions are apparently fulfilled in the case of the great majority of wage earners, they are only rarely realized with regard to business men. In most instances the business man who is unable to make living profits could become an employee, and thus convert his right to a decent livelihood into a right to a living wage. Even when no such alternative is open to him, he cannot claim a strict right to living profits, for the second condition stated above remains unfulfilled. The consuming public does not regard the business function of such men as economically indispensable. Rather than pay the higher prices necessary to provide living profits for the inefficient business men, consumers will transfer their patronage to the efficient competitors. Should the retail grocer, for example, raise his prices in the effort to get living profits, his sales would fall off to such an extent as to reduce his profits still lower. While the consumers may be willing to fulfil their obligation of furnishing living profits for all necessary grocers, they are not willing, nor are they morally bound, to do so in the case of grocers whose inability to command sufficient patronage at remunerative prices shows that they are not necessary to the community. The consuming public does not want to employ such business men at such a cost.

Nor is the State under obligation to insure living profits for all business men. To carry out such a policy, either by enforcing a sufficiently high level of prices, or by sub-

sidizing those who fail to obtain living profits, would be to compel the public to support inefficiency.

In the foregoing paragraphs we have assumed that the inability of the business men under consideration to get living profits is due to their own lack of capacity as compared with their more efficient competitors. When, however, their competitors are not more efficient, but are enabled to undersell through the use of unfair methods, such as adulteration of goods and oppression of labor, a different moral situation is presented. Honest and humane business men undoubtedly have a claim upon society to protection against such unfair competition. And the consumers are under obligation to make reasonable efforts to withhold their patronage from those business men who practice dishonesty and extortion.

The Question of Superfluous Business Men

Although we have rejected as impractical the proposal to set a legal limit to profit-incomes, we have to admit that many of the abler business men would continue to do their best work even if the profits that they could hope to obtain were considerably smaller in volume. These men hold a strategic position in industry, inasmuch as they are not subject to the same degree of constant competition as the other agents of production.[1] Were the supply of superior business capacity more plentiful, their rewards would be automatically reduced, and the burden of profits resting upon society would be to that extent diminished. On the other hand, the number of mediocre business men, especially in the distributive industries, is much larger than is necessary to supply the wants of the community. This constitutes a second unnecessary volume of payments under the head of profits. Is there no way by which these wastes can be reduced?

The volume of exceptionally large profits could be diminished by an extension of the facilities of technical and

[1] Cf. Hobson, "The Industrial System," chapter on "Ability."

industrial education. Thus the number of persons qualifying as superior business men would be gradually increased, competition among this class of men would be intensified, and their rewards correspondingly diminished.

The profits that go to superfluous business men, especially in the class known as middlemen, can be largely eliminated through combination and coöperation. The tendency to unite into a single concern a large number of small and inefficient enterprises should be encouraged up to the point at which the combination threatens to become a monopoly. That this process is capable of effecting a considerable saving in business profits as well as in capital, has been amply demonstrated in several different lines of enterprise. As we have seen in a preceding chapter, the coöperative movement, whether in banking, agriculture, or stores, has been distinctly successful in reducing profits. Millions of dollars are thus diverted every year from unnecessary profit-receivers to laborers, consumers, and to the man of small resources generally. Yet the coöperative movement is only in its infancy. It contains the possibility of eliminating entirely the superfluous business man, and even of diminishing considerably the excessive profits of the exceptionally able business man.

CHAPTER XVIII

THE MORAL ASPECT OF MONOPOLY

THE conclusion was drawn in the last chapter that the surplus gains of corporations operating in conditions of competition can justly be retained by the stockholders as the remuneration of exceptional productive efficiency. It is, of course, to be understood that the proper allowance for interest on the capital is not necessarily the amount authorized by the stipulated rate of dividend on the stock, but the prevailing or competitive rate of interest plus an adequate rate of insurance against the risks of the enterprise. If the prevailing rate of interest is five per cent, and the risk is sufficiently protected by an allowance of one per cent, the fair rate of return on the investment is six per cent. The fact that a concern may actually award its stockholders ten per cent dividends, has no bearing on the determination of the genuine surplus. If the actual surplus that remains after paying all other charges and allowing ten per cent on the stock is only $50,000, whereas it would be $100,000 with an allowance of only six per cent, then the true surplus gains, or profits, are the latter amount, not the former. No part of the $100,000 can be justified as interest on capital. It must all find its justification as profits proceeding from superior productivity.

Bearing in mind this distinction between the actual rate of dividend and the proper allowance for interest on capital, we take up the question of the morality of profits or surplus gains in conditions of monopoly.

Surplus and Excessive Profits

Several of the great industrial combinations of the United States have obtained profits which are commonly stigmatized as "excessive." For example, the Standard Oil Company paid, from 1882 to 1906, an average annual dividend of 24.15 per cent on the capital stock, and had profits in addition at the rate of about eight per cent annually;[1] from 1904 to 1908 the American Tobacco Company averaged nineteen per cent on its actual investment;[2] and the United States Steel Corporation obtained an average annual return of twelve per cent on its investment from 1901 to 1910.[3] A complete list of the American monopolies that have reaped more than the competitive rate of return on their capital would undoubtedly be a very long one.

Is it possible to justify such returns? Has a monopoly a right to take surplus gains? Let us suppose a concern which is getting fifteen per cent on its investment. Inasmuch as the risks are smaller than in competitive enterprises, six per cent is an ample allowance for interest. Of the remaining nine per cent, four per cent, we shall assume, is derived from economies of production as compared with the great majority of competitive concerns. This portion of the surplus, being the reward of superior efficiency, may be retained by the owners of the monopoly quite as justly as similar gains are taken by the exceptionally efficient corporation in conditions of competition. The objection that the monopoly ought to share these gains with the public, since it limits individual opportunity in a socially undesirable way, has some merit, but it can scarcely

[1] Report of the Commissioner of Corporations on the Petroleum Industry, II, 40, 41.

[2] Report of the Commissioner of Corporations on the Tobacco Industry, II, 26, 34.

[3] Report of the Commissioner of Corporations on the Steel Industry, I, 51. According to F. J. McRae, the expert accountant for the Stanley congressional investigating committee, this concern secured 40 per cent on the *cost* of its property.

be urged on grounds of strict justice. At most it points only to an obligation in equity.

By what canon of distribution can the retention of the other 5 per cent of surplus gain be justified? Not by the titles of needs and efforts, for these have already been satisfied through the salaries paid to those stockholders who perform labor in the management of the concern. These titles afford no basis for any other claim than that which proceeds from labor. They cannot be made to justify claims made on behalf of capital. Not by the title of productivity, for this has already been remunerated in the 4 per cent just considered. Not as interest on capital, for ample allowance has already been made under this head in the original 6 per cent. As we have seen in an earlier chapter, the only reasons that give ethical support to interest on capital are the sacrifice that is involved in some kinds of saving, the possibility that interest is necessary in order to induce the provision of sufficient capital, the certainty that the State would be enabled to enforce the abolition of interest, and some presumptive considerations. Since all of these reasons and ends are satisfied by the competitive rate of interest, none of them will justify the exaction of more than the competitive rate. It is not possible to justify a higher rate on either social or individual grounds. Therefore, the only basis that is left upon which to defend the retention of the five per cent surplus that we are discussing, is the power of appropriation. The monopoly possesses the economic strength to take this five per cent because it is able to impose higher than competitive prices upon the consumer. Obviously such power has no greater ethical sanction or validity than the pistol of the highwayman. In both cases the gains are the product of extortion.

The conclusion that men have no right to more than the competitive rate of interest, as interest, on their capital, and that a monopoly has consequently no right to those surplus gains that are not produced by superior efficiency, is con-

firmed by public opinion and by the decisions of the courts. The monopolistic practice of taking more than the usual rate of return on capital merely because there exists the power to take it, is universally condemned as inequitable. In fixing the charges of public service corporations, the courts allow only the rate that is obtainable in competitive conditions of investment.

The statement that the monopoly may retain those surplus gains which are derived from superior efficiency assumes, of course, that fair wages have been paid to employees, and fair prices to the sellers of materials, and that fair methods have been used toward competitors. In so far as any of these conditions is not met, the monopolistic concern has not right to surplus gains of any sort.

The Question of Monopolistic Efficiency

So much for the moral principle. What proportion of the surplus gains of monopoly are due to extortionate prices rather than to economics in production cannot be known, even approximately. According to Louis D. Brandeis, who is one of the most competent authorities in this field, only a very small part of these gains is derived from superior efficiency.[1] Professor E. S. Meade writes: "During a decade (1902-1912) of unparalleled industrial development, the trusts, starting with every advantage of large capital, well-equipped plants, financial connections, and skilled superintendence, have not succeeded."[2] On the other hand, President Van Hise thinks that, "the weight of argument is strongly in favor of the increased efficiency of large combinations of industry on the averaage."[3] The difference of opinion existing among students of this subject is due to lack of adequate data, par-

[1] Hearings Before the Interstate Commerce Committee, U. S. Senate, Part XVI, pages 1146-1166.

[2] *The Journal of Political Economy*, April, 1912, p. 366.

[3] "Concentration and Control," p. 20.

ticularly to the absence of such uniform and comprehensive systems of accounting as would be required to provide a basis for reliable general conclusions. Opposing particular statements may be equally true, because based upon different instances; but general statements are little better than guesses.

Let us approach the question from another side, that of prices. Whenever the charges imposed by monopolistic concerns upon their products are higher than those that would have prevailed under competition, the surplus gains are obviously to that extent not due to superior efficiency. They have their source in the arbitrarily made prices. The Final Report of the United States Industrial Commission, which was made at the beginning of the year 1902, declared that, "in most cases the combination has exerted an appreciable power over prices, and in practically all cases it has increased the margin between raw materials and finished products." [1] Since the cost of production had decreased during the preceding decade, this increase in the margin, and the ensuing increased profits, necessarily involved an increase in prices to the consumer. Taking the period of 1897-1910, and comparing the movement of prices between eighteen important trust-controlled products, and the same number of important commodities not produced by monopolistic concerns, Professor Meade concluded that the former were sold at a "much lower" relative level than the latter.[2] His computations were based upon figures compiled by the Bureau of Labor. According to the Commissioner of Corporations, the Standard Oil Company "has taken advantage of its monopoly power to extort prices much higher than would have existed under free competition." [3] The same authority shows that the American Tobacco Company used its power to obtain con-

[1] Page 621.
[2] *The Journal of Political Economy*, April, 1912, p. 363.
[3] Report on the Petroleum Industry, II, 74.

siderably more than competitive prices on some of its products.[1] Excessive prices, as measured by the standards of competition, were also established by the United States Steel Corporation, the American Sugar Refining Company, and the combinations in meat packing and in lumber.[2]

A safe statement probably would be that the greater part of the surplus gains of the most conspicuous American monopolies have been due to excessive prices rather than to economies of production.

Let us turn from the subject of unjust monopoly gains to that of unfair methods used by the great combinations toward their competitors. These methods are mainly three: discriminative underselling, exclusive-selling contracts, and advantages in transportation.

Discriminative Underselling

The first of these practices is exemplified when a monopoly sells its goods at unprofitable low rates in competitive territory, while maintaining higher prices elsewhere; and when it offers at very low prices those kinds of goods which are handled by competitors, while holding at excessively high prices the kinds of commodities over which it has exclusive control. Both forms of the practice seem to have been extensively used by most of the monopolistic concerns of America.[3] The Standard Oil Company has been perhaps the most conspicuous offender in this field.[4] This practice is unjust because it violates the fundamental moral principle that a man has a right to pursue a lawful good without hindrance through illicit means. Among the illicit means enumerated by the moral theologians are force, fraud, deception, lying, slander, intimidation, and extortion.[5]

[1] Report on the Tobacco Industry, II, 27.
[2] Cf. Van Hise, op. cit., pp. 140, 149, 153, 159.
[3] Final Report of the Industrial Commission, pp. 660-662.
[4] Report on the Petroleum Industry, I, 328-332.
[5] Cf. Lehmkuhl, "Theologia Moralis," I, no. 974.

The illicit means employed in discriminative underselling are chiefly extortion and deception. If the very low prices at which the monopoly sells in the field which contains competitors were maintained outside of that field also, and if they were continued not merely until the independent concerns were driven out of business, but indefinitely afterward, no injustice would be done the latter. For no man has a natural right to any particular business. If a powerful concern can eliminate competitors through low prices made possible by superior efficiency, the competitors are not unjustly treated. They have no more just cause of complaint than the inefficient grocer whose custom is attracted from him by other and more efficient merchants. The offense is at the worst contrary to charity. But when the monopoly maintains the low and competition-eliminating prices only locally and temporarily, when it is enabled to establish and continue these prices only because it sells its goods at extortionate rates elsewhere, the latter prices are evidently the instrument or means by which the competitors are injured and eliminated. In that case the monopoly violates the right of the competitors to pursue a lawful good immune from unfair interference. The lawful good is a livelihood from this kind of business; and the illicit interference is the unjust prices maintained outside the competitive field.

In the preceding paragraph we have assumed that the extortionate prices are operative at the same time as the excessively low prices, but in a different place. Suppose that the former are imposed only after the independent concerns are eliminated. The injustice to the competitors remains the same as in the preceding case. Although the extortionate prices are later in time, they are the instrumental cause of the destructive low prices through which the competitors were driven out of business. If the owners of the monopoly were not certain of their ability to establish the subsequent extortionate prices, they would not have put into effect the unprofitable low prices. Hence

there is a true causal connection between the former and the latter. Although the connection is mainly psychical, through the consciousness of the monopoly owners, it is none the less real and effective. Its practical effectiveness is seen in the fact that the subsequent possibility of imposing extortionate prices will induce men to lend the monopoly money to carry on the process of exterminating competition. The process is maintained by means of the extortionate prices quite as effectively as though the two things were simultaneous.

In so far as the patrons of the independent concerns are deceived into expecting that the very low prices will be permanent, and in so far as this impression causes them to withdraw their patronage from the independents, the latter are injured through another illicit means, namely, deception. The competitors have a right not to be deprived of their customers through imposture.

What is the measure of extortionate prices in this connection? How can we know that the high, competition-eliminating prices are really extortionate? There are only two possible tests of just price. The first is the proper cost of production—fair wages to labor, fair prices for materials, and fair interest on capital. If the monopoly does not raise prices above this level, it obviously does not impose extortionate prices, nor inflict injustice upon the eliminated competitor. Moreover, if the monopoly has introduced economies of production it may, as we have seen, justly charge prices somewhat above the cost-of-production level. But it may not raise them above the level that would have prevailed under competition. This is the second test of just price. No possible justification can be found, except one to be mentioned presently, for charging the consumers higher prices than they could have obtained under competitive conditions. At such prices the monopoly will be able to secure the prevailing rate of interest on its capital, and all the surplus gains that proceed from superior efficiency. A higher scale of prices

will be, therefore, extortionate, and the competitors who are eliminated through its instrumentality will be the victims of injustice.[1]

The exception alluded to above occurs when the monopoly uses the excess which it obtains over the competitive price to pay fair wages to those laborers who were insufficiently compensated in competitive conditions. In such a case the eliminated competitors would have no just claim against the monopoly; for their elimination took place in the just interest of the producers. The case, however, is purely academic, since the discriminative underselling practiced by our monopolistic concerns has not been impelled by any such motive, nor has it achieved any such result.

Exclusive-Sales Contracts

The second unfair method employed by monopolies toward competitors is that of exclusive-selling contracts, sometimes called the "factor's agreement." It requires the dealer, merchant, or jobber to refrain from selling the goods produced by independent concerns, on penalty of being refused the goods produced by the monopoly. The merchant is compelled to choose between the less important line of wares to be had from the former, and the more important line obtainable from the latter. He will not be permitted to handle both. "Here is somebody who has been buying goods, let us say by way of illustration, from the American Tobacco Company, and a rival producer

[1] It may be of interest to recall the mediæval attitude toward monopolistic exactions, as summarily stated by St. Antoninus, who was archbishop of Florence in the first half of the fifteenth century: "When monopolist merchants agree together to preserve a fixed price, so as to secure an unlimited profit, they are guilty of sinful trading." He maintained that they should not sell above the market price, and should be prevented from so doing by law. See his "Summa Theologica," III, 8, 3, iv, and II, 1, 16, ii. Present day moral theologians lay down the same doctrine, and in addition condemn the characteristic monopolistic methods as unjust. See Tanquerey, "De Justitia," nos. 776, 777; Lehmkuhl, "Theologia Moralis," vol. I, no. 1119.

comes in whom the merchant likes to patronize. He buys goods for a time from the rival, and an agency of the trust sends him a note to the effect that he must not buy any more from that rival corporation; that, if he does so, the trust will give all of its own goods, some of which the merchant is obliged to have, to another agent. That will probably bring him to terms." [1] By this method the independent manufacturer can be deprived of sufficient patronage to injure him seriously, and perhaps to drive him out of business.

This process is one of intimidation brought to bear upon the merchant. Through fear of loss he is compelled to discontinue selling the goods of the competing manufacturer. It is a kind of secondary boycott. As such, it is an unreasonable interference with the liberty of the merchant unless its object is to compel him to do something that he may be reasonably required to do. In the case that we are considering, the object of the pressure is not of that character; for to drive the rival manufacturer out of business, or to assist in his expulsion, is not a reasonable thing. The exclusive-selling contract which is forced upon the merchant is quite as unreasonable as though its purpose were to prevent him from, say, patronizing manufacturers having red hair. Being thus unreasonable, thus injurious to individual liberty, it violates not only the law of charity but that of justice. It transgresses the merchant's right to enter reasonable contracts with the rival manufacturer, and if it results in a pecuniary loss to the former it is an invasion of his rights of property. It likewise violates the rights of the competitive manufacturer, since it is among the unfair means which may not be used to prevent a man from pursuing a legitimate good. It is an unfair means because it involves unreasonable intimidation, uncharity, and injustice toward the merchant. When the independent manufacturer is injured through such an instrumentality, he suffers injustice quite as certainly at the

[1] Clark, "The Problem of Monopoly," p. 35.

hands of the monopoly as though his property were destroyed through the strong-arm methods of hired thugs.

Discriminative Transportation Arrangements

Concerning the third unfair method, discriminative advantages in transportation, the United States Industrial Commission declared: "It is incontestable that many of the great industrial combinations had their origin in railroad discrimination. This has been emphasized many times in the history of the Standard Oil Company, and of the great monopolies dealing in live stock, dressed beef, and other products." [1] The American Sugar Refining Company was several times convicted of receiving illegal favors from railroads, and paid in fines thousands upon thousands of dollars. Sometimes the monopoly has openly been accorded lower freight rates than its competitors, and sometimes it has paid the regular charges, and then received back a part of them as a refund or rebate. At one time the Standard Oil Company obtained rebates not only on its own shipments, but on those of its rivals! [2]

Special advantages of this sort necessarily involve injustice to the competitors of the monopoly. If the low rates given to the monopolistic concern are a sufficiently high price for the service of carrying freight, the higher charges imposed upon the competing concerns are extortionate; if the former rates are unprofitably low, the difference between sufficient and insufficient freight charges is made up by the independent concerns. In the former case the independents pay the railroad too much; in the latter case they bear burdens that should properly rest upon the monopoly. The monopolistic concern is partly responsible for this injustice inasmuch as it urges and often intimidates the railroad to establish the discriminating rates.

All three of the practices that we have been considering

[1] Final Report, p. 361.
[2] Report on the Petroleum Industry, pp. 22, 23.

are universally condemned by public sentiment. They are all likewise under the ban of statutory law. The first two have recently received detailed and explicit prohibition in the Clayton Anti-Trust Act.

Natural Monopolies

Up to this point we have been dealing with private and artificial monopolies. We turn now to consider briefly those natural and quasi-public monopolies which are either tacitly or explicitly recognized as monopolies by public authority, and whose charges are to a greater or less extent regulated by some department of the State. Such are, for example; steam railroads and municipal utilities. When the charges made for the services of these corporations are *adequately* regulated by public authority, the owners of such concerns will have a right to all the surplus gains that they can obtain. In that case a contract is made between the corporation and the public which is presumably fair to both parties, and which represents the social estimate of what is just. If the public authorities have not sufficiently safeguarded the interests of the people, if they have permitted the charges to be so high as to provide excessive returns for the corporation, the latter is under no moral obligation to refrain from reaping the full benefit of the State's negligence or incompetence. If, however, the unduly high rates have been brought about through bribery, extortion, or deception practiced by the corporation, the inequitable contract thus arranged will not justify the surplus gains thus produced. For example; if the corporation deliberately and effectively conceals the real value of its property through stockwatering, and thus misleads the public authority into permitting charges which return twelve instead of six per cent on the actual investment, the corporation cannot forthwith justly claim the surplus gain represented by the extra six per cent.

When the public authorities either fail entirely to regulate charges, or do so only spasmodically and partially, the

quasi-public monopoly will not necessarily have a right to all the obtainable surplus gains. In such cases the charges imposed on the public are not an adequate expression of the social estimate of justice, nor an adequate basis of legitimate surplus gains. In the absence of sufficient public regulation, a quasi-public monopoly is morally bound to fix its charges at such a level as will enable it to obtain only the prevailing rate of interest on the investment, and such surplus gains as it can produce through exceptional efficiency. In all such cases the public service corporation is in the same moral position as the artificial monopoly: it has no possible basis except superior efficiency for claiming or getting any returns above the competitive rate of interest on its capital.

Methods of Preventing Monopolistic Injustice

How shall the injustices of monopoly be prevented in the future? So far as quasi-public monopolies are concerned, all students of the subject are now agreed that these should be permitted to exist under adequate governmental regulations as to prices and service. The reason is that in this field successful and useful competition is impossible. Public utility corporations are natural monopolies, and must be dealt with by the method of regulation until such time as they are brought under the ownership and operation of the State. With regard to the great industrial combinations which have become or threaten to become artificial monopolies, there exists substantial agreement among competent authorities on one point, and disagreement on another point. All admit that the unfair competitive methods described in an earlier part of this chapter should be stringently prohibited. No possible reason can be found for legal toleration of these or any other discriminative, uncharitable, or unjust practices on the part of stronger toward weaker competitors.

The disagreement among students of monopoly relates to the fundamental question of permitting or not permit-

ting these combinations to exist. According to the first theory, no new industrial monopolies should be permitted, and those that we have should be dissolved. The basis of this theory is the assumption that all the economies and all the productive efficiency found in monopolistic concerns can be developed and maintained in smaller business organizations, and that the method of prevention and dissolution is the simplest means of protecting the public against the danger of extortionate monopoly prices. Attention has been called in a preceding paragraph to the impossibility of determining whether the great monopolistic combinations have on the average shown themselves to be more efficient than concerns subject to active and adequate competition. It is significant, however, that in the discussion of this subject which took place at the twenty-sixth annual meeting of the American Economic Association, at Minneapolis in 1913, the economists who participated were practically unanimous in holding that the superior efficiency of the trusts had not been demonstrated, but was a matter of serious doubt, and that the burden of proof of their alleged superiority had been definitely shifted upon those who maintained the affirmative.[1] Probably the great majority of the whole body of American economists share these conclusions to-day as they did fourteen years ago.

On the other hand, the opponents of prevention and dissolution point to the obvious economies of large-scale over small-scale production, and contend that these are sufficient reason for permitting and even encouraging the great combinations. The power to oppress competitors by unjust methods of business, and the public by extortionate prices, should be kept under rigid control by supervision, and government regulation of maximum prices. But the arguments advanced in favor of this position are never conclusive. Most of its advocates fail to realize, or at least to take adequately into account, the

[1] "Papers and Proceedings," pp. 158-194.

difference between large-scale production and production by a monopoly. While the large plant and the large business organization have in many lines of manufacture and trade a considerable advantage over the small plant and the small organization, there is not a scintilla of evidence to show that the efficiency of magnitude increases indefinitely with magnitude. There is no proof that the maximum efficiency is reached only with the maximum size of the business unit. On the contrary, all the evidence that we have points to the conclusion that in every field of industrial and commercial enterprise, all the economies of magnitude and of combination are obtained long before the concern becomes a monopoly. There is not an industry of any importance in the United States in which all the advantages of bigness and concentration cannot be made operative in concerns that control as low as twenty-five per cent of the total product. The highest economy and efficiency can be obtained without monopoly.

Indeed, this is admitted by the more reasonable advocates of the regulation and price-fixing policy. While maintaining that "concentration must go far in order to give the maximum of efficiency," President Van Hise does not hold "that it should go to the extent that the element of monopoly enters"; and he would have the law "declare restraint of trade unreasonable that gets to monopoly," and fix the definite per cent of business control which constitutes a monopoly.[1] We are justified, therefore, in concluding that the theory of prevention and dissolution (providing that the competing units are not made so small as to destroy the certain economies of magnitude) rather than the theory of permission and regulation, indicates the sound policy of dealing with monopolies.

After Eleven Years

The foregoing paragraphs were written in the year 1916. At that time the Clayton Act and the Federal Trade

[1] Op. cit., pp. 20, 251.

Commission were still too recent to have received a fair trial. Subsequent experience has justified the statement that these agencies have considerably lessened those notoriously unfair business practices which are among the most effective means of creating and maintaining monopolies. Hence, it is safe to say that this particular cause of monopoly can be substantially eliminated. Governmental price-fixing has been discredited by war time experience and is no longer supported by a respectable body of competent opinion. The important question, therefore, is still whether monopolies ought to be prevented and dissolved.

A judicious consideration of all the facts seems to warrant an affirmative answer to this question. It is even clearer now than it was in 1916 that artificial monopolies are, with possibly very rare exceptions, neither economically efficient nor economically inevitable. "At first glance, the forces favoring monopoly appear very strong. There is first of all the well-known economy of large-scale production in many lines of industry. There are the economies which in certain cases appear to accompany the combination of separate business units under a single management. There is the occasional appearance of cut-throat competition, an unstable situation leading almost inevitably to monopoly. There is the constant effort of the captains of industry, when competition is especially keen and irksome, to find escape through some form of combination, making use of every possible device—pool, trust, holding company, and so on—which human ingenuity with billions at stake can devise."

And yet, "it is doubtful if the monopolistic combination is in many cases the most efficient form of organization. We have already learned that the efficienecy of large-scale production has very real limits. There are few important lines of industry in which this limit would not be reached long before the would-be monopolist had become great enough to absorb the whole. Even assuming the monopoly to become established, lethargy in manage-

ment and lack of progress in the technique of production and the methods of organization, will tend to appear, so that the monopoly which at the moment of its formation is representative of the most efficient methods of production carries with it no assurance of continued efficiency." [1]

Despite its economic inefficiency, men have always sought, and no doubt always will seek to achieve monopoly. Regardless of its effects upon the public, a monopoly is always a source of pecuniary advantage to its possessor. Can it be prevented? "So deeply ingrained is this desire to secure monopoly profits that we may safely say that it can never be eradicated, but there is reason to believe that here the power of organized society, acting through legislation and administration, is strong enough to cope with the situation." [2]

As a matter of fact this corrective and repressive power has never been fully utilized, at least in the United States. No Federal administration and few if any state administrations have ever consistently employed all their legal resources to prevent or destroy monopolies. If sustained earnest effort in that direction should prove inadequate, there remains the remedy of government competition with the most intractable concerns. In the words of the "Social Reconstruction Program" of the National Catholic War Council this proposal "deserves more serious consideration than it has yet received."

If all political measures should fail there would remain the resources of coöperative enterprise. Whenever the consumers are ready to organize and maintain comprehensive coöperative societies they can put an end to all forms of monopolistic extortion.

[1] "Elementary Economics," by Fairchild, Furness and Buck. Vol. II, pp. 68-69.
[2] Op. cit., p. 70.

CHAPTER XIX

THE MORAL ASPECT OF STOCK WATERING

In the last chapter we saw that a monopoly has no right to gains in excess of the competitive rate of interest on its capital, except in so far as these have been derived from superior efficiency. Now superior efficiency is clearly present whenever the monopolistic concern obtains surplus gains by selling its product at competitive prices, or at the prices that would have prevailed under competition. Evidently the surplus in such a case is due to the greater productivity of the monopoly as compared with the average productivity of competitive concerns. When, however, the monopoly charges prices above the competitive level, its surplus gains cannot all be attributed to unusual efficiency. A part if not all of them are the result simply of the power to take; consequently they are immoral.

One of the means by which some monopolies have obtained unjust surplus gains is overcapitalization, or stock watering. This practice is rarely found in businesses that are subject to normal competition. So far as the consumer is concerned, a corporation that cannot fix prices arbitrarily has nothing to gain by inflating its capital. Unless it develops exceptional efficiency, it cannot hope to obtain more than the competitive rate of interest on its capital; if it does become exceptionally efficient, it can take the resulting surplus gains without arousing public resentment or criticism. In either case, it will have no sufficient reason to deceive the public by exaggerating the amount of its capital. When a competitive concern does water its stock, the object will be to defraud investors. If the scheme is successful the unjust surplus gains are taken by

one set of stockholders from another set of stockholders. Whenever anything of this sort occurs, the deceptive devices employed are so crude and obvious that they present no special problem for the moralist. Even as practiced by monopolies, stock watering raises no principle that has not been already discussed. It does, however, create some special difficulties in the matter of applying the moral principles involved. Consequently, it may with advantage be considered in a separate chapter.

The general definition of overcapitalization is capitalization in excess of the proper valuation of a business. What is the measure of proper valuation? According to many corporation directors, it is earning power. If a concern is able to get the prevailing rate of interest on a capitalization of ten million dollars, that is the proper capitalization for that concern, even though the money actually invested might not have exceeded five million dollars. In the opinion of most other persons, however, a company is overcapitalized when the face value of its securities is greater than the money put into the business plus the subsequent enhancement in the value of its land. "The money put into the business," means that which has been expended for labor, materials, land, equipment, and all other items and costs of organizing the concern, together with the sum that is necessary to cover the interest not obtained by the investors during the preparatory period before the business became productively operative. The increase in the value of the land after its acquisition by the company also deserves a place in the legitimate valuation, and may reasonably be represented by an appropriate amount of securities. Monopolistic corporations have as good a right, generally speaking, to profit by the "unearned increment" of land as competitive concerns.

Injurious Effects

Stock watering can become an instrument of unjust gains in two ways: first, through fraud inflicted upon some

of the investors; second, through the imposition of exorbitant prices upon the consumers. The former cannot occur so long as the process of inflation does not go beyond earning power; for in that case all stockholders, barring dishonest manipulation of the company's receipts, will obtain the normal rate of interest on their investment. If, however, stock is sold in excess of the earning power of the concern, those stockholders who fail to obtain the ordinary rate of interest on their money are unjustly treated in so far as they have been deceived. And those officers or other members of the corporation who have profited by the deception of and injury to these stockholders, are the recipients of unjust gains. Daniel Drew inflated the capitalization of the Erie Railroad from seventeen millions to seventy-eight millions within four years for the purpose of manipulating the stock market; owing to excessive issues of stock, the American Shipbuilding Company was thrown into bankruptcy to the great injury of all but one of its stockholders;[1] because they issued securities to buy subsidiary railway lines at exorbitant prices, and to provide extravagant commissions and discounts for bankers, the directors of the 'Frisco System forced it into a receivership, after having inflicted a net loss of four million dollars per year upon the stockholders.[2] Many other notable performances might be cited where stock watering, both in railroads and in industrial concerns, has defrauded investors of millions of dollars, and enabled a few powerful directors to reap corresponding enormous profits.

At first sight it would seem that stock watering is of little or no importance to the consumer. Since a monopolistic concern endeavors to fix its prices at the point that will yield the maximum net profit in any case, the amount of stock in existence would seem to be irrelevant to the problem. Nevertheless, the presence of a large quantity of

[1] Cf. Ripley, "Trusts, Pools, and Corporations," pp. 207-210.
[2] See Report of the Interstate Commerce Commission on these transactions.

fictitious capital whose owners are calling for dividends, sometimes constitutes a special force impelling the imposition of higher prices and charges. "It will happen at times that overcapitalization does at least cause a clinging to high prices. The managers of an overcapitalized monopoly may have to face the fact that great blocks of securities are outstanding, very likely issued by their predecessors, and now held by all sorts of investors. They are then loath to let go any slice of its profits. We have seen that often the monopoly principle of maximum net profit is not applied in its full sweep, especially in industries which are potentially subject to public control. Where abnormal returns on the original investment have been made, concessions to public opinion in the way of low rates and better facilities are more likely to come when capitalization has not been inflated." [1] The United States Industrial Commission found that as regards railroads: "In the long run excessive capitalization tends to keep rates high; conservative capitalization tends to make rates low." [2]

This indirect influence of stock watering toward excessive rates and prices becomes effective in two ways. The existence of fictitious capital conceals from the public the high rate of return that is obtained on the true valuation, thus preventing effective action for a reduction in prices and charges; and it sometimes causes the rate-making authorities to allow rates to be sufficiently high to yield something to the investors in the inflated capital. If a trust or a railroad has issued stock having a par value of twice the capital invested, its rate of dividend on the entire capitalization will be only one-half the rate of interest that it is receiving on the investment. If it pays, for example, seven per cent on all its stock, it will be getting fourteen per cent on its genuine capital. While the consumers of tobacco, or the patrons of a railroad, would raise no out-

[1] Taussig, "Principles of Economics," II, 385, 386.
[2] Final Report, p. 414.

cry against seven per cent dividends, they would probably begin to agitate for an enforcement of the anti-trust laws, and for a reduction in freight and passenger charges, if they realized that they were providing for dividends of fourteen per cent. Nor is the public adequately protected by government investigations of trusts and regulation of railway rates. Despite the anti-trust laws, many American monopolies have for many years received exorbitant profits through excessive prices imposed upon the consumer; and in many of these instances overcapitalization and its resulting concealment of real profits have been of considerable assistance to the extortionate monopoly. In fixing railway rates, the Interstate Commerce Commission, and the various state railroad commissions, have been seriously hampered by their inability to determine the real investment of the roads, and to separate the genuine from the fictitious capitalization. Not until the year 1913 did the national government begin the task of making a valuation of interstate railroad property, and the work is not yet completed. Very few of the states have made valuations of the railroads within their borders. In the meantime it is certain that many of the rates fixed by both the national and the state bodies will continue, as in the past, to be higher than they would have been if the true value of the railroads were known and accepted as the basis of freight and passenger charges.

The second bad effect of stock watering on the consumer is seen when rate-fixing bodies deliberately permit the charges of public service corporations to be high enough to include some returns on that portion of the capitalization which is fictitious. It is very difficult for such authorities to resist entirely the plea of the "innocent investor." Consequently, railroad commissions and other rate-making authorities, and even the courts, have occasionally made some provision for dividends on the "water." Chairman Knapp of the Interstate Commerce Commission admitted a few years ago that, in considering the reasonableness of a

given rate, this body took into account the financial condition, and therefore the capitalization of the railroad.[1] In 1914 and 1915 practically all the great railway systems of the United States made powerful, and in a measure successful, appeals to the Interstate Commerce Commission for a rise in rates on the ground that they were unable to pay the normal rate of interest on their securities, and hence could not obtain on advantageous terms new capital needed for improvements. Had the capitalization of the roads been kept down to the actual investment, most of them would have been able to pay the competitive rate of interest on all their stock, and still have a sufficient surplus to command excellent credit.

The Moral Wrong

When prices or charges are made high enough to provide returns on fictitious capital, the consumer is treated unjustly. As we have shown more than once, the consumer cannot rightfully be required to pay for the products of a monopoly at a greater rate than is necessary to provide the competitive rate of interest on capital in the average conditions of efficiency. If some concerns are able to sell at this price, and still obtain surplus gains, they have a right thereto on account of their exceptional productivity. But the capital upon which a monopolistic concern has a claim to the prevailing rate of interest is genuine capital: that is, the actual investment as interpreted above, not an inflated capitalization. The consumers may justly be required to pay for the use and benefit of actual productive goods; but it is not just that they should be compelled to pay for the supposed use of a capital that has no concrete reality.

The stockholders of the monopolistic corporation which imposes upon the consumers exorbitant prices or charges through the instrumentality of inflated capitalization, can become guilty of this injustice in two ways: by promoting

[1] Final Report of the Industrial Commission, p. 413.

the improper capitalization; and by getting dividends on stock for which they have not given a fair equivalent. As a rule, the greater part of such guilt and responsibility rests upon certain special and powerful groups among the stockholders. For example; the J. P. Morgan syndicate which organized the United States Steel Corporation received for that service securities to the value of $63,500,000. "There can be no question," says the Commissioner of Corporations, "that this huge compensation to the syndicate was greatly in excess of a reasonable payment." [1] The syndicate was able to exact this stupendous sum mainly because some of its members were also in control of some of the companies that were brought into the combination. "In other words, as managers of the Steel Corporation these various interests virtually determined their compensation as underwriters." [2] In the opinion of the minority members of the Stanley congressional investigating committee, "such a sum bore no relation whatever to the service rendered, the risk run, and the capital advanced." [3] The majority of the committee characterized the transaction in even stronger language. It is clear, therefore, that the syndicate committed injustice toward the consumers both by organizing a monopoly which afterward imposed unjust prices, and by taking millions of dollars in securities which its members did not earn, and on which they received interest through the exorbitant prices. While this transaction is exceptionally conspicuous, it is substantially typical of the methods by which many powerful monopolies have watered their stock to the detriment of the public, and the advantage of a small group of directors and financiers.

The "Innocent" Investor

Is the State obliged to protect, or is it even justified in

[1] Report on the Steel Industry, p. 38.
[2] Idem, p. 39.
[3] *Chicago Record-Herald,* July 29, 1912.

protecting, the innocent victims of stock watering? That is to say, should rate-making authorities fix the charges of public service corporations high enough to return some interest to the purchasers of fictitious securities? All the facts and presumptions of the case seem to demand an answer in the negative. In the first place, it is impossible to distinguish the "innocent" holders from those who were fully acquainted with the questionable and speculative nature of the stock at the time it came into their possession. In the second place, the civil law has never formally recognized any such claim on the part of even innocent investors, nor any such obligation on the part of itself. It has never laid down the principle that any class of investors in fictitious stock has a legal or moral right to obtain the normal rate of interest on such stock through the imposition of sufficiently high charges upon the consumers. Nor have the courts, except in isolated instances, sanctioned any such principle. On the contrary, the Supreme Court of the United States, in the case of Smyth *vs.* Ames, declared that a railroad "may not impose upon the public the burden of such increased rates as may be required for the purpose of realizing profits upon such excessive valuation or fictitious capitalization." In the third place, when we consider the matter from the side of morals we see that the innocent investors are not the only persons whose rights are involved. If charges are placed high enough to cover interest on fictitious capital, the cost and the injury fall upon the consumers. The latter have a right to the services of utility corporations, such as railways and gas companies, at a fair price; that is, a price which will return to the capital put into the concern the prevailing rate of interest. To require them to pay more than this, is to compel them to give something for nothing; namely, to provide interest on capital which does not exist, and from which they receive no benefit. When, therefore, the State intervenes to secure fair charges for the consumers, it should base them upon the capital actually

invested and used in the business of public service. At least, this should be the general policy.

Frequently, however, the State has permitted overcapitalization, and charges sufficient to pay normal dividends thereon for long periods of years. Has it not thereby encouraged investors to cherish the expectation that these high charges would be permitted to continue, and that the fictitious stock would remain indefinitely as valuable as when it came into their possession? Is it not breaking faith with these investors when it reduces charges to the basis of the actual investment? A sufficient answer to these questions is found in the fact that the State has never officially sanctioned the practice of stock watering, nor in any way intimated that it would recognize the existence of the fictitious stock when it should take up the neglected task of fixing fair rates and charges. At the most, the civil law has merely tolerated the practice and the resulting extortion upon the public. And there has never been a time when the greater and saner part of public opinion did not look upon overcapitalization as at the least abnormal and irregular. Neither from the civil law nor from public sentiment have the devices of inflating capitalization received that measure of approval which would confer upon investments therein the legal or the moral status of vested rights. To the "innocent investor" in watered stocks the maxim, *caveat emptor,* is as fairly applicable as to the man who has been deceived into lending his money on insufficient security, or the man who has been induced by the asseverations of a highly imaginative prospectus to put his money into a salted gold mine, or the man who buys stolen goods from a pawnshop, or the man who because of insufficient police protection loses his purse to a highwayman. In all these cases perfect legal safeguards would have prevented the loss; yet in none of them does the State undertake to make the loss good to the innocent victim.

Such seems to be the strict justice of the situation as between the consumer and the innocent investor. It may sometimes happen that a particularly grave hardship can be averted from the latter at a comparatively slight cost to the former. In such a case equity would seem to require that some concession be made to the investors through the imposition of somewhat higher charges upon the consumer.

Magnitude of Overcapitulation

Probably the majority of the great steam railroads, street railways and gas companies that were organized during the last quarter of the nineteenth century inflated their capitalization to a greater or less extent. Since the year 1900 the trusts have been the chief exponents and illustrations of the practice. According to President Van Hise, "the majority of the great concentrations of industry have gone through two or three stages of reorganization, the promoters and financiers each time profiting greatly, sometimes enormously."[1] For example; in 1908 the "water in the American Tobacco Company was estimated by the Commissioner of Corporations at $66,000,000; the United States Shipbuilding Company diluted its twelve and one-half million dollars of capital with more than fifty-five millions of "water"; the United States Steel Corporation contained at the time of its organization fictitious capital to the amount of $500,000,000; and at least fifty per cent of the common stock of the American Sugar Refining Company represented no actual investment.[2] Owing to the penetrating and widespread criticism, and the government investigations and prosecutions of the last few years, the practice of stock watering has very greatly diminished. Perhaps the most flagrant recent example is that of the Pullman Company, which according to the testimony of R. T. Lincoln before the Federal

[1] Op. cit., p. 28.
[2] Cf. Van Hise, op. cit., pp. 29, 142, 149.

Commission on Industrial Relations, distributed among its stockholders $100,000,000 in stock dividends between 1898 and 1910.

Nevertheless the temptation to inflate capital will exist until the device is stringently prohibited by law. Both the nation and the states ought to adopt the policy of forbidding the sale of stock at less than par value, and restricting issues of stock to the amount required for the establishment, equipment, and permanent betterment of a concern. including a sum to cover the loss of interest to the investors during the early period of the business. Any extraordinary risks to which an enterprise is liable can be protected by the simple device of allowing a correspondingly high rate of interest on the securities. With such legislation enacted and enforced, neither the investor nor the consumer could be deceived or defrauded; and the financing and management of corporations would become less speculative, and more beneficial to the community. The present chapter may be fittingly closed with a moderate and significant statement from the pen of Professor Taussig: "It is doubtful whether the whole mechanism of irregular and swollen capitalization was at any time necessary or wise. Why not provide once for all that securities shall be issued only to represent what has been invested? . . . It is sometimes said that freedom, even recklessness, in the issue of securities was a useful device, in that it enabled the projectors to look forward to returns really tempting, and at the same time concealed these returns from a grudging public. . . . A more simple and straightforward way of dealing with the issue of securities might thus have dampened in some degree the feverish speculation and restless progress of railway development. But a slower pace would have had its advantages also, and, not least, restriction of securities would have saved great complications in the later stages of established monopoly and needed regulation." [1]

[1] Op. cit., II, 387, 388.

CHAPTER XX

THE LEGAL LIMITATION OF FORTUNES

If the taxation and other measures of reform suggested in Section I were fully applied to our land system; if coöperative enterprise were extended to its utmost practicable limits for the correction of capitalism; and if the wide extension of educational opportunities, and the elimination of the surplus gains of monopolies restricted the profits of the business man to an amount strictly commensurate with his ability and risks—if all these results were accomplished the number of men who could become millionaires through their own efforts would be so small that their success would arouse popular applause rather than popular envy. Their claim to whatever wealth they might accumulate would be generally looked upon as entirely valid and reasonable. Their pecuniary eminence would be pronounced quite as deserved as the literary eminence of a Lowell, the scientific eminence of a Pasteur, or the political eminence of a Lincoln. In such conditions there could be no disconcerting discussion of the menace of great fortunes.

In the meantime, these reforms are not realized, nor are they likely to be even approximately established within the present generation. For some time to come it will be possible for the exceptionally able, the exceptionally cunning and the exceptionally lucky to accumulate great riches through clever and fortuitous utilization of special advantages, natural and otherwise. Moreover, a great proportion of the large fortunes already in existence will persist, and will be transmitted to heirs who will in many cases

cause them to increase. Can nothing be done to reduce these great accumulations? If so, is such a proceeding socially and morally desirable?

The Method of Direct Limitation

The law might directly limit the amount of property to be held by any individual. If the limit were placed fairly high, say at one hundred thousand dollars, it could scarcely be regarded as an infringement on the right of property. In the case of a family numbering ten members, this would mean one million dollars. All the essential objects of private ownership could be abundantly met out of a sum of one hundred thousand dollars for each person. Moreover, a restriction of this sort need not prevent a man from bestowing unlimited amounts upon charitable, religious, educational, or other benevolent causes. It would, indeed, hinder some persons from satisfying certain unessential wants, such as the desire to enjoy gross or refined luxuries, great financial power, and the control of immense industrial enterprises; but none of these objects is necessary for any individual's genuine welfare. In the interest of the social good such private and unimportant ends may properly be rendered impossible of realization.

Such a restriction would no more constitute a direct attack upon private ownership than limitations upon the use and kinds of property. At present a man may not do what he pleases with his gun, his horse, or his automobile, nor may he invest his money in the business of carrying the mails. The limitation of fortunes is just what the word expresses, a *limitation* of the right of property. It is not a denial nor *destruction* of that right. As a limitation of the amount to be held by an individual, it does not differ in principle from a limitation of the kinds of goods that may become the subject of private ownership. There is nothing in the nature of things nor in the purpose of property to indicate that the right of ownership is unlimited in quantity any more than it is in quality. The

final end and justification of individual rights of property is human welfare; that is, the welfare of all individuals severally and collectively. Now it is quite within the bounds of physical possibility that the limitation under discussion might be conducive to the welfare of human beings both as individuals and as constituting society.

Nevertheless the dangers and obstacles confronting any legal restriction of fortunes are so real as to render the proposal socially inexpedient. It would easily lend itself to grave abuse. Once the community had habituated itself to a direct limitation of any sort, the temptation to lower it in the interest of better distribution and simpler living would become exceedingly powerful. Eventually the right of property might take such an attenuated and uncertain form in the public mind as to discourage labor and initiative, and thus seriously to endanger human welfare. In the second place, the manifold evasions to which the measure would lend itself would make it of very doubtful efficacy. To be sure, neither of these objections is absolutely conclusive, but taken together they are sufficiently weighty to dictate that such a proposal should not be entertained so long as other and less dangerous methods are available to meet the problem of excessive fortunes.

Four of the nine members of the Federal Commission on Industrial Relations have suggested that the amount of property capable of being received by the heirs of any person be limited to one million dollars.[1] If we assume that by heirs the Commission meant the natural persons to whom property might come by bequest or succession, this limitation would permit a family of ten persons to inherit one hundred thousand dollars each, and a family of five persons to obtain two hundred thousand dollars apiece. Would such a restriction be a violation of the right of private ownership? The answer depends upon the effects of the measure on human welfare. The rights of bequest and succession are integral elements of the right of owner-

[1] Final Report, p. 32.

ship; hence they are based upon human needs, and designed for the promotion of human life and development. A person needs private property not only to provide for his personal wants and those of his family during his lifetime, but also to safeguard the welfare of his dependents and to assist other worthy purposes, after he has passed away. Owing to the uncertainty of death, the latter objects cannot be adequately realized without the institutions of bequest and succession.

All the necessary and rational ends of bequest and succession could be attained in a society in which no man's heirs could inherit more than one million dollars. Under such an arrangement very few of the children of millionaires would be prevented from getting at least one hundred thousand dollars. That much would be amply sufficient for the essential and reasonable needs of any human being. Indeed, we may go further, and lay down the proposition that the overwhelming majority of persons can lead a more virtuous and reasonable life on the basis of a fortune of one hundred thousand dollars than when burdened with any larger amount. The persons who have the desire and the ability to use a greater sum than this in a rational way are so few that a limitation law need not take them into account. Corporate persons, such as hospitals, churches, schools, and other helpful institutions, should not, as a rule, be restricted as to the amount that they might inherit; for many of them could make a good use of more than the amount that suffices for a natural person.

So much for the welfare and rights of the beneficiaries of inheritance. The owners of estates would not be injured in their rights of property by the limitation that we are here considering. In the first place, the number of persons practically affected by the limitation would be extremely small. Only an insignificant fraction of property owners ever transmit or expect to be wealthy enough to transmit to their families more than one million dollars. Of these few a considerable proportion would not be

deterred by the million dollar limitation from putting forth their best and greatest efforts in a productive way. They would continue to work either from force of habit and love of their accustomed tasks, or from a desire to make large gifts to their heirs during life, or because they wished to assist some benevolent enterprise. The infinitesimally small number whose energies would be diminished by the limitation could be treated as a socially negligible element. The community would be better off without them.

The limitation of inheritance would, indeed, be liable to abuse. Circumstances would undoubtedly arise in which the community would be strongly tempted to make the maximum inheritable amount so low as to discourage the desire of acquisition, and to deprive heirs of reasonable protection. While the bad effects of such a limitation would not be as great as those following a similar abuse with regard to possessions, they are sufficiently grave and sufficiently probable to suggest that the legal restriction of bequest and succession should not be considered except as a last resort, and when the transmission of great fortunes had become a great and certain public evil.

It seems reasonable to conclude, then, that neither the limitation of possessions nor the limitation of inheritance is necessarily a direct violation of the right of property, but that the possible and even probable evil consequences of both are so grave as to make these measures of very doubtful benefit. Whether the dangers in question are sufficiently great to render the adoption of either proposal morally wrong, is a question that cannot be answered with any degree of confidence. What seems to be fairly certain is that in our present conditions legislation of this sort would be an unnecessary and unwise experiment.

Limitation Through Progressive Taxation

Is it legitimate and feasible to reduce great fortunes indirectly, through taxation? There is certainly no objection to the method on moral or social principles. As we

have seen in chapter viii, taxes are not levied exclusively for the purpose of raising revenue. Some kinds of them are designed to promote social rather than fiscal ends. Now, to prevent and diminish dangerous accumulations of wealth is a social end which is at least as important as most of the objects sought in license taxes. The propriety of attempting to attain this end by taxation is to be determined entirely by reference to its probable effectiveness.

The method of taxation available is a progressive tax on incomes, inheritances and excess profits. By a progressive tax is meant one whose rate advances in some definite proportion to the increases in the amount taxed. For example, a bequest of $100,000 might pay one per cent; $200,000, two per cent; $300,000, three per cent, and so forth. The reasonableness of the principle of progression in taxation has been well stated by Professor Seligman: "All individual wants vary in intensity, from the absolutely necessary wants of mere subsistence to the less pressing wants which can be satisfied by pure luxuries. Taxes, in so far as they rob us of the means of satisfying our wants, impose a sacrifice upon us. But the sacrifice involved in giving up a portion of what enables us to satisfy our necessary wants is very different from the sacrifice involved in giving up what is necessary to satisfy our less urgent wants. If two men have incomes of one thousand dollars and one hundred thousand dollars respectively, we impose upon them not equal but very unequal sacrifices if we take away from each the same proportion, say ten per cent. For the one thousand dollar individual now has only nine hundred dollars, and must deprive himself and his family of necessaries of life; the one hundred thousand dollar individual has ninety thousand dollars, and if he retrenches at all, which is very doubtful, he will give up only great luxuries, which do not satisfy any pressing wants. The sacrifice imposed on the two individuals is not equal. We are laying on the one thousand dollar man a far heavier sacrifice than on the one

hundred thousand dollar man. In order to impose equal sacrifices we must tax the richer man not only absolutely, but relatively, more than the poor man. The taxes must be not proportional, but progressive; the rate must be lower in the one case than in the other." [1]

The principle of equality of sacrifices which underlies the progressive theory does not justify the leveling and communistic inferences that have sometimes been brought against it. Equality of sacrifice does not mean equality of satisfied, or unsatisfied, wants after the tax has been collected. If Brown pays a tax of one per cent on his income of two thousand dollars, it does not follow that Jones with an income of ten thousand dollars should pay a sufficiently high rate to leave him with only the net amount remaining to Brown; namely, $1,980. Equality of sacrifice means proportional equality of burden, not equality of net resources after the tax has been deducted. The object of the progressive rate is to make relatively equal the sacrifices *caused by the tax itself,* not to equalize burdens or unsatisfied wants.

Another objection to progressive taxation is that it readily lends itself to confiscation of the largest incomes. All that is necessary to produce this result is to increase the rate with sufficient rapidity. This could be accomplished either by large steps in the rate itself or by small steps in the income increases which formed the basis of the advances in the rate. If the present Federal surtax of one per cent on incomes above $10,000 should thereafter increase geometrically with every increase of income specified in the schedules, it would be 256 per cent on incomes above $20,000! Should the rate increase arithmetically with every additional $1,000 of income it would reach 100 per cent on incomes above $60,000!

To this objection there are two valid answers. Even if the rate should ultimately reach one hundred per cent it

[1] "Progressive Taxation," pp. 210, 211; cf. Vermeersch, "Quaestiones de Justitia," pp. 94-126.

need not, and on progressive principles it should not, effect confiscation of an entire income. The progressive theory is satisfied when the successive rates of the tax apply to successive increments of income, instead of to the entire income. For example, the rate might begin at one per cent on incomes of one thousand dollars, and increase by one per cent with every additional thousand, and yet leave a very large part of the income in the hands of the receiver. Each one thousand dollars would be taxed at a different rate, the first at one per cent, the fiftieth at fifty per cent, and the last at one hundred per cent. If the hundred per cent rate were applied to the whole of the higher incomes, it would be a direct violation of the principle of equality of sacrifice. In the second place, the progressive theory forbids rather than requires the rate to go as high as one hundred per cent. While the sacrifices imposed by a given rate are greater in the case of small than of large properties, they become approximately equal as between all properties above a certain high level. After this level is reached, additional increments of wealth will all be expended either for extreme luxuries, or converted into new investments. Consequently they will supply wants of approximately equal intensity. For example, the wants dependent upon a surplus of $25,000 in excess of an income of $100,000, and the wants dependent upon a surplus of $75,000 above the same level do not differ materially in strength. To diminish these surpluses by the same per cent, say, ten, would impose equal burdens.

In the years immediately following the Great War, progressive Federal taxes in the United States attained very high levels. On incomes, the maximum normal tax was twelve per cent and the maximum surtax, sixty-five per cent. Incomes above $1,000,000 paid seventy-seven per cent of the amount by which they exceeded that figure. In 1919 the *average* rate on the *whole* of such incomes was 64.87 per cent. The highest rate in a Federal inheritance tax was fifty per cent, applying to the amounts by

which estates exceeded $5,000,000. In 1922 the average rate collected on the *whole* of such estates was 19.49 per cent. In the short period when a progressive tax was levied on the excess profits of business concerns, those profits which represented the highest rate of return on an investment paid a tax of eighty per cent.

Although these three classes of progressive taxes were very heavy, those on incomes being the highest known to history, no competent authority seriously questioned them on the score of justice. The excess profits tax has been abolished, which is a pity, because it is one of the fairest and least burdensome ways of collecting revenue. It does not touch moderate profits, and the rates increase with increases in the per cent of profit. The highest normal rate in our Federal income tax is now only five per cent, while the highest surtax is but twenty per cent, applying to incomes above $100,000. The Federal inheritance tax has been reduced to a maximum of twenty-five per cent. Obviously the existing income and inheritance rates could be raised considerably without violating either economic or ethical principles of taxation.

Great fortunes cannot be prudently prevented or reduced by the method of direct limitation. These ends can, however, be attained, so far as may be necessary, through progressive taxes upon incomes, inheritances and excess profits.

CHAPTER XXI

THE DUTY OF DISTRIBUTING SUPERFLUOUS WEALTH

THE correctives of the present distribution that were proposed before the beginning of the last chapter related mainly to the apportionment of the product among the agents of production. They would affect that distribution which takes place as an integral element of the productive process, not any disposition which the productive agents might desire or be required to make of the shares that they had acquired from the productive process. Such were many of the proposals regarding land tenure, and all of those concerning coöperative enterprises and monopoly. In the last chapter we considered the possibility of neutralizing to some extent the abuses of the primary distribution by the action of government through the taxation of large fortunes. These were proposals directly affecting the secondary distribution. And they involved the method of compulsion. In the present chapter we shall inquire whether desirable changes in the secondary distribution may not be effected by voluntary action. The specific questions confronting us here are, whether and how far proprietors are morally bound to distribute their superfluous wealth among their less fortunate fellows.

The Question of Distributing Some

The authority of revealed religion returns to the first of these questions a clear and emphatic answer in the affirmative. The Old and the New Testaments abound in declarations that possessors are under very strict obligation to give of their surplus to the indigent. Perhaps the most

striking expression of this teaching is that found in the Gospel according to St. Matthew, ch. 25, verses 32-46, where eternal happiness is awarded to those who have fed the hungry, given drink to the thirsty, received the stranger, covered the naked, visited the sick, and called upon the imprisoned; and eternal damnation is meted out to those who have failed in these respects. The principle that ownership is stewardship, that the man who possesses superfluous goods must regard himself as a trustee for the needy, is fundamental and all-pervasive in the teaching of Christianity. No more clear or concise statement of it has ever been given than that of St. Thomas Aquinas: "As regards the power of acquiring and dispensing material goods, man may lawfully possess them as his own; as regards their use, however, a man ought not to look upon them as his own, but as common, so that he may readily minister to the needs of others." [1]

Reason likewise enjoins the benevolent distribution of surplus wealth. It reminds the proprietor that his needy neighbors have the same nature, the same faculties, capacities, wants, and destiny as himself. They are his equals and his brothers. Reason, therefore, requires that he should esteem them as such, love them as such, and treat them as such; that he should love them not merely by well wishing, but by well doing. Since the goods of the earth were intended by the Creator for the common benefit of all mankind, the possessor of a surplus is reasonably required to use it in such a way that this original purpose of all created goods shall be fulfilled. To refuse is to treat one's less fortunate neighbor as something different from and less than oneself, as a creature whose claim upon the common bounty of nature is something less than one's own. Multiplying words will not make these truths plainer. The man who does not admit that the welfare of his neighbor is of equal moral worth and importance with his own welfare, will logically refuse to

[1] "Summa Theologica," 2a. 2ae., q. 66, a. 3.

admit that he is under any obligation of distributing his superfluous goods. The man who does acknowledge this essential equality will be unable to find any logical basis for such refusal.

Is this obligation one of charity or one of justice? At the outset a distinction must be made between wealth that has been honestly acquired and wealth that has come into one's possession through some violation of rights. The latter kind must, of course, be restored to those persons who have been wronged. If they cannot be found or identified the ill-gotten gains must be turned over to charitable or other worthy objects. Since the goods do not belong to the present holder by any valid moral title, they should be given to those persons who are qualified by at least the claim and title of needs.

Some of the Fathers of the Church maintained that all superfluous wealth, whether well or ill gotten, ought to be distributed to those in want. St. Basil of Cæsarea: "Will not the man who robs another of his clothing be called a thief? Is the man who is able and refuses to clothe the naked deserving of any other appellation? The bread that you withhold belongs to the hungry; the cloak that you retain in your chest belongs to the naked; the shoes that are decaying in your possession belong to the shoeless; the gold that you have hidden in the ground belongs to the indigent. Wherefore, as often as you were able to help men and refused, so often you did them wrong." [1] St. Augustine of Hippo: "The superfluities of the rich are the necessities of the poor. They who possess superfluities possess the goods of others." [2] St. Ambrose of Milan: "The earth belongs to all; not to the rich; but those who possess their shares are fewer than those who do not. Therefore, you are paying a debt, not bestowing a gift." [3] Pope Gregory the Great: "When we give

[1] "Patrologia Græca," vol. 31, cols. 275, 278.
[2] "Patrologia Latina," vol. 37, col. 1922.
[3] "Patrologia Latina," vol. 14, col. 747.

necessaries to the needy, we do not bestow upon them our goods; we return to them their own; we pay a debt of justice rather than of mercy." [1]

The great systematizer of theology in the thirteenth century, St. Thomas Aquinas, who is universally recognized as the most authoritative private teacher in the Church, stated the obligation of distribution in less extreme and more scientific terms: "According to the order of nature instituted by Divine Providence, the goods of the earth are designed to supply the needs of men. The division of goods and their appropriation through human law do not thwart this purpose. Therefore, the goods which a man has in superfluity are due by the natural law to the sustenance of the poor." [2]

That this is the official teaching of the Church to-day is evident from the words of Pope Leo XIII: "When one has provided sufficiently for one's necessities and the demands of one's state of life, there is a duty to give to the indigent out of what remains. It is a duty not of strict justice, save in case of extreme necessity, but of Christian charity." [3] Nearly thirteen years earlier, the same Pope had written: "The Church lays the rich under strict command to give their superfluity to the poor." [4]

The only difference between the Fathers and Pope Leo XIII and St. Thomas on this question has reference to the precise nature of the obligation. According to the Fathers, the duty of distribution would seem to be a duty of justice. In the passage quoted above from St. Thomas, superfluities are said to "belong," or to be "due" ("debetur") to the needy; but the particular moral precept that applies is not specified. In another place, however, the Angelic Doctor declares that almsgiving is an act of char-

[1] "Patrologia Latina," vol. 77, col. 87. These and several other extracts of like tenor may be found in Ryan's "Alleged Socialism of the Church Fathers," ch. i; St. Louis, 1913.

[2] Op. cit., 2a. 2ae., q. 66, a. 7.

[3] Encyclical, "On the Condition of Labor," May 15, 1891.

[4] Encyclical, "On Socialism, Communism, Nihilism," Dec. 28, 1878.

ity.[1] Pope Leo XIII explicitly says that the obligation of giving is one of charity, "except in extreme cases." The latter phrase refers to the traditional doctrine that a person who is in extreme need; that is, in immediate danger of losing life, limb, or some equivalent personal good, is justified in the absence of any other means of succor in taking from his neighbor what is absolutely necessary. Such appropriation, says St. Thomas, is not, properly speaking, theft; for the goods seized belong to the needy person, "inasmuch as he must sustain life." [2] In a word, the medieval and the modern Catholic teaching would make the distribution of superfluous goods a duty of justice only in extreme situations, while the Fathers laid down no such specific limitation. Nevertheless, the difference is less important than it appears to be on the surface. When the Fathers lived, theology had not been systematized nor given a precise terminology; consequently, they did not always make exact distinctions between the different classes of virtues and obligations. In the second place, the Patristic passages that we have quoted, and others of like import, were mostly contained in sermons addressed to the rich, and consequently were expressed in hortatory rather than scientific terms. Moreover, the needs of the time which the rich were exhorted to relieve were probably so urgent that they could correctly be classed as extreme, and therefore would give rise to an obligation of justice on the part of those who possessed superfluous wealth at least, in the great majority of instances.

The truly important fact of the whole situation is that both the Fathers and the later authorities of the Church regard the task of distributing superfluous goods as one of strict moral obligation, which in serious cases is binding under pain of grievous sin. Whether it falls under the head of justice, or under that of charity, is of no great practical consequence.

[1] Op. cit., 2a. 2ae., q. 32, a. 1.
[2] Idem, q. 66, a. 7.

The Question of Distributing All

Is a man obliged to distribute *all* his superfluous wealth? As regards the support of human life, Catholic moral theologians distinguish three classes of goods: first, the necessaries of life, those utilities which are essential to a healthy and humane existence for a man and his family, regardless of the social position that he may occupy, or the standard of life to which he may have been accustomed; second, the conventional necessities and comforts, which correspond to the social plane upon which the individual or family moves; third, those goods which are not required to support either existence or social position. Goods of the second class are said to be necessary as regards conventional purposes, but superfluous as regards the maintenance of life, while those of the third class are superfluous without qualification.

No obligation exists to distribute the first class of goods; for the possessor is justified in preferring his own primary and fundamental needs to the equal or less important needs of his neighbors. The owner of goods of the second class is under obligation to contribute to persons who are in extreme need, since the preservation of the neighbor's life is more important morally than the full maintenance of the owner's conventional standard of living. On the other hand, there is no obligation of giving any of these goods to meet those needs of the neighbor which are social or conventional. Here, again, it is reasonable that the possessor should prefer his own interests to the equal interests of his fellows. Still less is he obliged to expend any of the second class of goods for the relief of ordinary or common distress. As regards the third class of goods, those which are absolutely superfluous, the proportion to be distributed is indefinite, depending upon the volume of need. The doctrine of the moral theologians on the subject is summed up in the following paragraph.

When the needs to be supplied are "ordinary," or "com-

mon"; that is, when they merely expose a person to considerable and constant inconvenience, without inflicting serious physical, mental, or moral injury, they do not impose upon any man the obligation of giving up all his superfluous goods. According to some moral theologians, the possessor fulfils his duty in such cases if he contributes that proportion of his surplus which would suffice for the removal of all such distress, provided that all other possessors were equally generous; according to others, if he gives two per cent of his superfluity; according to others, if he contributes two per cent of his annual income. These estimates are intended not so much to define the exact measure of obligation as to emphasize the fact that there exists some degree of obligation; for all the moral theologians agree that some portion of a man's superfluous goods ought to be given for the relief of ordinary or common needs. When, however, the distress is grave; that is, when it is seriously detrimental to welfare; for example, when a man or a family is in danger of falling to a lower social plane; when health, morality, or the intellectual or religious life is menaced,—possessors are required to contribute as much of their superfluous goods as is necessary to meet all such cases of distress. If all is needed all must be given. In other words, the entire mass of superfluous wealth is morally subject to the call of grave need. This seems to be the unanimous teaching of the moral theologians.[1] It is also in harmony with the general principle of the moral law that the goods of the earth should

[1] A comprehensive, though brief, discussion of this question and numerous references are contained in Bouquillon, "De Virtutibus Theologicis," pp. 332-348. When Pope Leo XIII declared that the rich are obliged to distribute "out of" their superfluity, he did not mean that they are free to give only a portion thereof. The particle "de" in his statement, "officium est de eo quod superat gratificari indigentibus," is not correctly translated by "some." It means rather "out of," "from," or "with"; so that the affluent are commanded to devote their superfluous goods indefinitely to the relief of the needy. In the Encyclical, "Quot Apostolici Muneris," he used the expression, "gravissimo divites urget praecepto ut quod superest pauperibus tribuant," which clearly declares the duty of distributing all.

be enjoyed by the inhabitants of the earth in proportion to their essential needs. In any rational distribution of a common heritage, the claims of health, mind, and morals are surely superior to the demands of luxurious living, or investment, or mere accumulation.

Some Objections

The desirability of such a thoroughgoing distribution of superfluous incomes appears to be refuted by the fact that a considerable part of the capital and organizing ability that function in industry are dependent upon the possession of superfluous goods by the richer classes. That surplus of the larger incomes which is not consumed or given away by its receivers at present, constitutes no small portion of the whole supply of savings annually converted into capital. Were all of it to be withdrawn from industry and distributed among the needy, the process might involve more harm than good. Moreover, the very large industrial enterprises are initiated and carried on by men who have themselves provided a considerable share of the necessary funds. Without these large masses of personal capital, they would have much more difficulty in organizing these great enterprises, and would be unable to exercise their present dominating control.

To the first part of this objection we may reply that the distribution of superfluous goods need not involve any considerable withdrawal of existing capital from industry. The giving of large amounts to institutions and organizations, as distinguished from needy individuals, might mean merely a transfer of capital from one holder to another; for example, the stocks and bonds of corporations. The capital would be left intact, the only change being in the persons that would thenceforth receive the interest. Small donations could come out of the possessor's income. Moreover, there is no reason why the whole of the distribution could not be made out of income rather than out of capital. While the givers would still remain possessed of

superfluous wealth, they would have handed over to needy objects, persons and causes the thing that in modern times constitutes the soul and essence of wealth; namely, its annual revenues.

The second difficulty noted above, that such a thorough distribution of superfluous goods would lessen considerably the power of the captains of industry to organize and operate great enterprises, can be disposed of very briefly. Those who made the distribution from income rather than from invested wealth would still retain control of large masses of capital. All, however, would have deprived themselves of the power to enlarge their business ventures by turning great quantities of their own income back into industry. But if their ability and character were such as to command the confidence of investors, they would be able to find sufficient capital elsewhere to equip and carry on any sound and necessary enterprise. In this case the process of accumulating the required funds would, indeed, be slower than when they used their own, but that would not be an unmixed disadvantage. When the business was finally established, it would probably be more stable, would respond to a more definite and considerable need, and would be more beneficial socially, inasmuch as it would include a larger proportion of the population among its proprietors. And the diminished authority and control exercised by the great capitalist, on account of his diminished ownership of the stock, would in the long run be a good thing for society. It would mean the curtailment of a species of power that is easily liable to abuse, wider opportunities of industrial leadership, and a more democratic and stable industrial system.

Only a comparatively small portion of the superfluous goods of the country could with advantage be immediately and directly distributed among needy individuals. The greater part would do more good if it were given to religious and benevolent institutions and enterprises. Churches, schools, scholarships, hospitals, asylums, housing

projects, insurance against unemployment, sickness and old age, and benevolent and scientific purposes generally, constitute the best objects of effective distribution. By these means social and individual efficiency would be so improved within a few years that the distress due to economic causes would for the most part have disappeared.

The proposition that men are under moral obligation to give away the greater portion of their superfluous goods or income is, indeed, a "hard saying." Not improbably it will strike the majority of persons who read these pages as extreme and fantastic. No Catholic, however, who knows the traditional teaching of the Church on the right use of wealth, and who considers patiently and seriously the magnitude and the meaning of human distress, will be able to refute the proposition by reasoned arguments. Indeed, no one can logically deny it who admits that men are intrinsically sacred, and essentially equal by nature and in their claims to a reasonable livelihood from the common heritage of the earth. The wants that a man supplies out of his superfluous goods are not necessary for rational existence. For the most part they bring him merely irrational enjoyment, greater social prestige, or increased domination over his fellows. Judged by any reasonable standard, these are surely less important than those needs of the neighbor which are connected with humane living. If any considerable part of the community rejects these propositions the explanation will be found not in a reasoned theory, but in the conventional assumption that a man may do what he likes with his own. This assumption is adopted without examination, without criticism, without any serious advertence to the great moral facts that ownership is stewardship, and that the Creator intended the goods of the earth for the reasonable support of all the children of men.

A False Conception of Welfare

If all the present owners of superfluous goods were to

carry out their own conception of the obligation, the amount distributed would be only a fraction of the real superabundance. Let us recall the definition of absolute superfluity as that portion of individual or family income which is not required for the reasonable maintenance of life and social position. It allows, of course, a reasonable provision for the future. But the great majority of possessors, as well as perhaps the majority of others, do not interpret their needs, whether of life or social position, in any such strict fashion. Those who acquire a surplus over their present absolute and conventional needs, generally devote it to an expansion of social position. They move into larger and more expensive houses, thereby increasing their assumed requirements, not merely in the matter of housing, but as regards food, clothing, amusements, and the conventions of the social group with which they are affiliated. In this way the surplus which ought to have been distributed is all absorbed in the acquisition and maintenance of more expensive standards. All classes of possessors adopt and act upon an exaggerated conception of both the strict and the conventional necessities. In taking this course, they are merely subscribing to the current theory of life and welfare. It is commonly assumed that to be worth while life must include the continuous and indefinite increase of the number and variety of wants, and a corresponding growth and variation in the means of satisfying them. Very little endeavor is made to distinguish between kinds of wants, or to arrange them in any definite scale of moral importance. Desires for purely physical goods, such as, food, drink, adornment, and sense gratifications generally, are put on the same level with the demands of the spiritual, moral, and intellectual faculties. The value and importance of any and all wants is determined mainly by the criterion of enjoyment. In the great majority of cases this means a preference for the goods and experiences that minister to the senses. Since these satisfactions are susceptible of indefinite increase, variety, and cost, the believer in this

theory of life-values readily assumes that no practical limit can be set to the amount of goods or income that will be required to make life continuously and progressively worth living. Hence the question whether he has superfluous goods, how much of a surplus he has, or how much he is obliged to distribute, scarcely occurs to him at all. Everything that he possesses is included among the necessaries of life and social position. He adopts as his working theory of life those propositions which were condemned as "scandalous and pernicious" by Pope Innocent XI in 1679: "It is scarcely possible to find among people engaged in worldly pursuits, even among kings, goods that are superfluous to social position. Therefore, hardly any one is bound to give alms from this source."

The practical consequences of this false conception of welfare are naturally most conspicuous among the rich, especially the very rich, but they are also manifest among the comfortable and middle classes. In every social group above the limit of very moderate circumstances, too much money is spent for material goods and enjoyments, and too little for intellectual, religious, and altruistic things.

The True Conception of Welfare

This working creed of materialism is condemned by right reason, as well as by Christianity. The teaching of Christ on the worth of material goods is expressed substantially in the following texts: "Woe to you rich." "Blessed are you poor." "Lay not up for yourselves treasures on earth." "For a man's life consisteth not in the abundance of things that he possesseth." "Be not solicitous as to what you shall eat, or what you shall drink, or what you shall put on." "Seek ye first the kingdom of God and his justice, and all these things shall be added unto you." "You cannot serve God and Mammon." "If thou wouldst be perfect, go, sell what thou hast and give to the poor, and come follow me." Reason informs us that neither our faculties nor the goods that satisfy them are of equal moral worth or importance. The

intellectual and spiritual faculties are essentially and intrinsically higher than the sense faculties. Only in so far as they promote, either negatively or positively, the development of the mind and soul have the senses any reasonable claim to satisfaction. They have no value in themselves; they are merely instruments to the welfare of the spirit, the intellect, and the disinterested will. Right life consists, not in the indefinite satisfaction of material wants, but in the progressive endeavor to know the best that is to be known, and to love the best that is to be loved; that is, God and His creatures in the order of their importance. The man who denies the intrinsic superiority of the soul to the senses, who puts sense gratifications on the same level of importance as the activities of mind and spirit and disinterested will, logically holds that the most degrading actions are equally good and commendable with those which mankind approves as the noblest. His moral standard does not differ from that of the pig, and he himself is on no higher moral level than the pig.

Those who accept the view of life and welfare taught by Christianity and reason cannot, if they take the trouble to consider the matter, avoid the conclusion that the amount of material goods which can be expended in the rational and justifiable satisfaction of the senses, is very much smaller than is to-day assumed by the great majority of persons. Somewhere between ten and twenty thousand dollars a year lies the maximum expenditure that any family can reasonably devote to its material wants. This is independent of the outlay for education, religion, and charity, and the things of the mind generally. In the overwhelming majority of cases in which more than ten to twenty thousand dollars are expended for the satisfaction of material needs, some injury is done to the higher life. The interests of health, intellect, spirit or morals would be better promoted if the outlay for material things were kept below the specified limit.

The distribution advocated in this chapter is obviously

no substitute for justice or the deeds of justice. Inasmuch, however, as complete justice is a long way from realization, a serious attempt by the possessors of true superfluous goods to fulfill their obligations of distribution would greatly counteract and soften existing injustice, inequality and suffering. Hence, benevolent giving deserves a place in any complete statement of proposals for a better distribution of wealth. Moreover, we are not likely to make great advances on the road of strict justice until we acquire saner conceptions of welfare, and a more effective notion of brotherly love. So long as men put the senses above the soul, they will be unable to see clearly what is justice, and unwilling to practice the little that they are able to see. Those who exaggerate the value of sense gratifications cannot be truly charitable, and those who are not truly charitable cannot perform adequate justice. The achievement of social justice requires not merely changes in the social mechanism, but a change in the social spirit, a reformation in men's hearts. To this end nothing could be more immediately helpful than a comprehensive recognition of the stewardship of wealth, and the duty of distributing superfluous goods.

REFERENCES ON SECTION III

ELY: Monopolies and Trusts. Macmillan; 1900.
VAN HISE: Concentration and Control. Macmillan; 1913.
STEVENS: Industrial Combinations and Trusts. Macmillan; 1913.
GARRIGUET: Régime du Travail. Paris; 1909.
HOBSON: Work and Wealth, a Human Valuation. Macmillan; 1914.
WEST: The Inheritance Tax. New York; 1908.
SELIGMAN: Progressive Taxation. Princeton; 1908.
The Income Tax. New York; 1913.
BOUQUILLON: De Virtutibus Theologicis. Brugis; 1890.
FAIRCHILD, FURNESS, BUCK: Elementary Economics, Macmillan; 1926.
DOUGLAS: What Can a Man Afford? American Economic Assn.; 1921.
Also, the works of Taussig, Devas, Hobson, Antoine, Pesch, Carver, Vermeersch, and King which are cited in connection with the introductory chapter.

SECTION IV

THE MORAL ASPECT OF WAGES

CHAPTER XXII

SOME UNACCEPTABLE THEORIES OF WAGE JUSTICE

"It may be that we are not merely chasing a will-o'-the-wisp when we are hunting for a reasonable wage, but we are at any rate seeking the unattainable."

Thus wrote Professor Frank Haight Dixon in a paper read at the twenty-seventh annual meeting of the American Economic Association, December, 1914. Whether he reflected the opinion of the majority of the economists, he at least gave expression to a thought that has frequently suggested itself to everyone who has gone into the wage question free from prejudices and preconceived theories. One of the most palpable indications of the difficulty to which Professor Dixon refers is the number of doctrines concerning wage justice that have been laboriously built up during the Christian era, and that have failed to approve themselves to the majority of students and thinkers. In the present chapter the attempt is made to set forth some of the most important of these doctrines, and to show wherein they are defective. They can all be grouped under these heads: The Prevailing-Rate Theory; Exchange-Equivalence Theories; and Productivity Theories.

I. The Prevailing-Rate Theory

This is not so much a systematic doctrine as a rule of expediency devised to meet concrete situations in the absence of any better guiding principle. Both its basis and its nature are well exemplified in the following extract from the Report of the Board of Arbitration in the Matter of the Controversy Between the Eastern Railroads

and the Brotherhood of Locomotive Engineers":[1] "Possibly there should be some theoretical relation for a given branch of industry between the amount of the income that should go to labor and the amount that should go to capital; and if this question were decided, a scale of wages might be devised for the different classes of employees which would determine the amount rightly absorbed by labor. . . . Thus far, however, political economy is unable to furnish such a principle as that suggested. There is no generally accepted theory of the division between capital and labor. . . .

"What, then, is the basis upon which a judgment may be passed as to whether the existing wage scale of the engineers in the Eastern District is fair and reasonable? It seems to the Board that the only practicable basis is to compare the rates and earnings of engineers in the Eastern District with those of engineers in the Western and Southern Districts, and with those of other classes of railway employees."

Six of the seven men composing this board of arbitration subscribed to this statement. Of the six one is the president of a great state university, another is a successful and large-minded merchant, the third is a great building contractor, the fourth is a distinguished lawyer, the fifth is a prominent magazine editor, and the sixth is a railway president. The dissenting member represented the employees. Since the majority could not find in any generally accepted theory a principle to determine the proper division of the product between capital and labor, they were perhaps justified in falling back upon the practical rule that they adopted.

Not in Harmony with Justice

From the viewpoint of justice, however, this rule or standard is utterly inadequate. It is susceptible of two interpretations. "Wages prevailing elsewhere," may mean

[1] Page 47.

either the highest rates or those most frequently occurring. According to the latter understanding, only those wages which were below the majority rates should be raised, while all those above that level ought to be lowered. In almost all cases this would mean a reduction of the highest wages, as these are usually paid only to a minority of the workers of any grade. The adoption of the highest existing rates as a standard would involve no positive losses, but it would set a rigid limit to all possible gains in the future. According to either interpretation of the prevailing rate, the increases in wages which a powerful labor union seeks to obtain are unjust until they have been established as the prevailing rates. Thus, the attorney for the street railways of Chicago dissented from the increases in wages awarded to the employees by the majority of the board of arbitration in the summer of 1915 because, "these men are already paid not only a fair wage but a liberal wage, when the wages in the same employment and the living conditions in other large cities are taken into consideration, or when comparison is made of these men's annual earnings with the earnings in any comparable line of work in the city of Chicago." [1] In other words, the dominant thing is always the right thing. Justice is determined by the preponderance of economic force. Now, a rule such as this, which condemns improvement until improvement has somehow become general, which puts a premium upon physical and intellectual strength, and which disregards entirely the moral claims of human needs, efforts, and sacrifices, is obviously not an adequate measure of either reason or justice. And we may well doubt that it would be formally accepted as such by any competent and disinterested student of industrial relations.

II. Exchange-Equivalence Theories

According to these theories, the determining factor of wage justice is to be found in the wage contract. The

[1] *The Chicago Daily Tribune*, July 17, 1915.

basic idea is the idea of equality, inasmuch as equality is the fundamental element in the concept of justice. The principle of justice requires that equality should be maintained between what is owed to a person and what is returned to him, between the kinds of treatment accorded to different persons in the same circumstances. Similarly it requires that equality should obtain between the things that are exchanged in onerous contracts. An onerous contract is one in which both parties undergo some privation, and neither intends to confer a gratuity upon the other. Each exchanger desires to obtain the full equivalent of the thing that he transfers. Since each is equal in personal dignity and intrinsic worth to the other, each has a strict right to this full equivalent. Owing to the essential moral equality of all men, no man has a right to make of another a mere instrument to his own interests through physical force or through an onerous contract. Men have equal rights not only to subsist upon the earth, but to receive benefits from the exchange of goods.

The Rule of Equal Gains

The agreement between employer and employee is an onerous contract; hence it ought to be made in such terms that the things exchanged will be equal, that the remuneration will be equal to the labor. How can this equivalence be determined and ascertained? Not by a direct comparison of the two objects, work and pay, for their differences render them obviously incommensurable. Some third term or standard of comparison is required in which both objects can find expression. One such standard is individual net advantage. Inasmuch as the aim of the labor contract is reciprocal gain, it is natural to infer that the gains ought to be equal for the two parties. Net gain is ascertained by deducting in each case the utility transferred from the utility received; in other words, by deducting the privation from the gross return. The good received by

the employer when diminished by or weighed against the amount that he pays in wages should be equal to the good received by the laborer when diminished by or weighed against the inconvenience that he undergoes through the expenditure of his time and energy. Hence the contract should bring to employer and employee equal amounts of net advantage or satisfaction.

Plausible as this rule may appear, it is impracticable, inequitable, and unjust. In the vast majority of labor contracts it is impossible to know whether both parties obtain the same quantity of net advantage. The gains of the employer can, indeed, be frequently measured in terms of money, being the difference between the wages paid to and the specific product turned out by the laborer. In the case of the laborer no such process of deduction is possible; for advantage and expenditure are incommensurable. We cannot subtract the laborer's privation, that is, his expenditure of time and energy, from his gross advantage, that is, his wages. How can we know or measure the net benefit obtained by a man who shovels sand ten hours for a wage of two dollars? How can we deduct his pain-cost from or weigh it against his compensation?

So far as the two sets of advantages are comparable at all those of the employee would seem to be always greater than those of the employer. A wage of seventy-five cents a day enables the laborer to satisfy the most important wants of life. Weighed against this gross advantage, his pain-cost of toil is relatively insignificant. His net advantage is the greatest that a man can enjoy, the continuation of his existence. The net advantage received by the employer from such a wage contract is but a few cents, the equivalent of a cigar or two. Even if the wage be raised to the highest level yet reached by any wage earner, the net advantage to the laborer, namely, his livelihood, will be greater than the net advantage to the employer from that single contract. Moreover, the sum total of an

employer's gains from all his labor contracts is less quantitatively than the sum total of the gains obtained by all his employees. The latter gains provide for many livelihoods, the former for only one. Again, no general rate of wages could be devised which would enable all the members of a labor group to gain equally. Differences in health, strength and intelligence would cause differences in the pain-cost involved in a given amount of labor; while differences in desires, standards of living, and skill in spending would bring about differences in the satisfactions derived from the same compensation. Finally, various employers would obtain various money gains from the same wage outlay, and various advantages from the same money gains. Hence if the rule of equality of net advantages were practicable it would be inequitable. At best, it would mean equal treatment of unequals.

It is also fundamentally unjust because it ignores the moral claims of needs, efforts and sacrifices as regards the laborer. As we have seen in the chapter on profits in competitive conditions, and as we shall have occasion to recognize again in a later chapter, no canon or scheme of distributive justice is acceptable that does not give adequate consideration to these fundamental attributes of human personality.

The Rule of Free Contract

Another form of the exchange-equivalence theory would disregard the problem of *equality* of gains, and assume that justice is realized whenever the contract is free from force or fraud. In such circumstances both parties gain something, and presumably are satisfied; otherwise, they would not enter the contract. Probably the majority of employers regard this rule as the only available measure of practicable justice. The majority of economists likewise subscribed to it during the first half of the nineteenth century. In the words of Henry Sidgwick, "the teaching of the political economists pointed to the conclusion that a

free exchange, without fraud or coercion, is also a fair exchange." [1] Apparently the economists based this teaching on the assumption that competition was free and general among both laborers and employers. In other words, the rule as understood by them was probably identical with the rule of the market rate, which we shall examine presently. It is not at all likely that the economists here referred to would have given their moral approval to those "free" contracts in which the employer pays starvation wages because he takes advantage of the ignorance of the laborer, or because he exercises the power of monopoly.

No matter by whom it is or has been held, the rule of free contract is unjust. In the first place, many labor contracts are not free in any genuine sense. When a laborer is compelled by dire necessity to accept a wage that is insufficient for a decent livelihood, his consent to the contract is free only in a limited and relative way. It is what the moralists call *voluntarium imperfectum*. It is vitiated to a substantial extent by the element of fear, by the apprehension of a cruelly evil alternative. The laborer does not agree to this wage because he prefers it to any other, but merely because he prefers it to unemployment, hunger, and starvation. The agreement to which he submits in these circumstances is no more free than the contract by which the helpless wayfarer gives up his purse to escape the pistol of the robber. While the latter action is free in the sense that it is chosen in preference to a violent death, it does not mean that the wayfarer gives, or intends to give, the robber the right of ownership in the purse. Neither should the laborer who from fear of a worse evil enters a contract to work for starvation wages, be regarded as transferring to the employer the full moral right to the services which he agrees to render. Like the wayfarer, he merely submits to superior force.

[1] Article on "Political Economy and Ethics," in Palgrave's Dictionary of Political Economy.

The fact that the force imposed upon him is economic does not affect the morality of the transaction.

To put the matter in another way, the equality which justice requires is wanting in an oppressive labor contract because of the inequality existing between the contracting parties. In the words of Professor Ely: "Free contract supposes equals behind the contract in order that it may produce equality." [1]

Again, the rule of free contract is unjust because it takes no account of the moral claims of needs. A man whose only source of livelihood is his labor does wrong if he accepts a starvation wage willingly. Such a contract, however free, is not according to justice because it disregards the requirements of reasonable life. No man has a right to do this, any more than he has a right to perpetrate self-mutilation or suicide.

The Rule of Market Value

A third method of interpreting exchange-equivalence is based upon the concept of value. Labor and compensation are thought to be equal when the value of one is equal to the value of the other. Then the contract is just and the compensation is just. The only objection to these propositions is that they are mere truisms. What does value mean, and how is it to be determined? If it is to receive an ethical signification; if the value of labor is to be understood as denoting not merely the value that labor will command in a market, but the value that labor ought to have, the statement that wages should equal the value of labor is an identical proposition. It tells us that wages ought to be what they ought to be.

In its simplest economic sense value denotes purchasing power, or importance in exchange. As such, it may be either individual or social; that is, it may mean the exchange importance attributed to a commodity by an individual, or that attributed by a social group. In a

[1] "Property and Contract," II, 603.

competitive society social value is formed through the higgling of the market, and is expressed in market price.

Now individual value is utterly impracticable as a measure of exchange-equivalence in the wage contract. Since the value attributed to labor by the employer differs in the great majority of instances from that estimated by the laborer himself, it is impossible to determine which is the true value, and the proper measure of just wages.

The doctrine that the social value or market price of labor is also the ethical value or just price, is sometimes called the classical theory, inasmuch as it was held, at least implicitly, by the majority of the early economists of both France and England.[1] Under competitive conditions, said the Physiocrats, the price of labor as of all other things corresponds to the cost of production; that is, to the cost of subsistence for the laborer and his family. This is the natural law of wages, and being natural it is also just. Adam Smith likewise declared that competitive wages were natural wages, but he refrained from the explicit assertion that they were just wages. Nevertheless his abiding and oft-expressed faith in the theory that men's powers were substantially equal, and in the social beneficence of free competition, implied that conclusion. Although the great majority of his followers denied that economics had moral aspects, and sometimes asserted that there was no such thing as a just or unjust wage, their teaching tended to convey the thought that competitively fixed wages were more or less in accordance with justice. As noted above, their belief in the efficacy of competition led them to the inference that a free contract is also a fair contract. By a free contract they meant for the most part one that is made in the open market, that is governed by the forces of supply and demand, and that expresses the social economic value of the things exchanged.

All the objections that have been brought against the rule of the prevailing rate apply even more strongly to the

[1] Cf. "L'Idée du Juste Salaire." by Léon Polier. ch. iii. Paris: 1001.

doctrine of the market rate. The former takes as a standard the scale of wages most frequently paid in the market, while the latter approves any scale that obtains in any group of laborers or section of the market. Both accept as the ultimate determinant of wage justice the preponderance of economic force. Neither gives any consideration to the moral claims of needs, efforts, or sacrifices. Unless we are to identify justice with power, might with right, we must regard these objections as irrefutable, and the market value doctrine as untenable.

The Medieval Theory

Another exchange-equivalence theory which turns upon the concept of value is that found in the pages of the medieval canonists and theologians. But it interprets value in a different sense from that which we have just considered. As the measure of exchange-equivalence the medieval theory takes objective value, or true value. However, the proponents of this view did not formally apply it to wage contracts, nor did they discuss systematically the question of just wages. They were not called upon to do this, for they were not confronted by any considerable class of wage earners. In the country the number of persons who got their living exclusively as employees was extremely small, while in the towns the working class was composed of independent producers who sold their wares instead of their labor.[1] The question of fair compensation for the town workers was, therefore, the question of a fair price for their products. The latter question was discussed by the medieval writers formally and in great detail. Things exchanged should have equal values, and commodities should always sell for the equivalent of their values. By what rule was equality to be measured and value determined? Not by the subjective appreciations of the exchangers, for these would sometimes sanction the most flagrant extortion. Were no other help

[1] Polier, op. cit., p. 33, sq.

available, the starving man would give all he possessed for a loaf of bread. The unscrupulous speculator could monopolize the supply of foodstuffs and give them an exorbitantly high price which purchasers would accept and pay rather than go hungry. Hence we find the medieval writers seeking a standard of *objective* value which should attach to the commodity itself, not to the varying opinions of buyers and sellers.

In the thirteenth century Albertus Magus [1] and Thomas Aquinas [2] declared that the proper standard was to be found in labor. A house is worth as many shoes as the labor embodied in the latter is contained in the labor embodied in the former. It is worthy of note that the diagram which Albertus Magnus presents to illustrate this formula of value and exchange had been used centuries before by Aristotle. It is likewise noteworthy that this conception of ethical value bears a striking resemblance to the theory of economic value upheld by Marxian Socialists. However, neither Aristotle nor the Schoolmen asserted that all kinds of labor had equal value.

Now this medieval labor-measure of value could be readily applied only to cases of barter, and even then only when the value of different kinds of labor had already been determined by some other standard. Accordingly we find the medieval writers expounding and defending a more general interpretation of objective or true value.

This was the concept of normal value; that is, the average or medium amount of utility attributed to goods in the average conditions of life and exchange. On the one hand, it avoided the excesses and the arbitrariness of individual estimates; on the other hand, it did not attribute to value the characters of immutability and rigidity. Contrary to the assumptions of some modern writers, the Schoolmen never said that value was something as fixedly inherent in goods as physical and chemical qualities.

[1] "Ethica," lib. v. tr. 2, cap. 5.
[2] "Comment. ad Eth., XXI, 172.

When they spoke of "intrinsic" value, they had in mind merely the constant capacity of certain commodities to satisfy human wants. Even to-day bread has always the intrinsic potency of alleviating hunger, regardless of all the fluctuations of human appraisement. The objectivity that the medieval writers ascribed to value was relative. It assumed normal conditions as against exceptional conditions. To say that value was objective merely meant that it was not wholly determined by the interplay of supply and demand, but was based upon the stable and universally recognized use-qualities of commodities in a society where desires, needs and tastes were simple and fairly constant from one generation to another.

How or where was this relatively objective value of goods to find concrete expression? In the "communis aestimatio," or social estimate, declared the canonists. Objective value and just price would be ascertained practically through the judgment of upright and competent men, or preferably through legally fixed prices. But neither the social estimate nor the ordinances of lawmakers were authorized to determine values and prices arbitrarily. They were obliged to take into account certain objective factors. In the thirteenth and fourteenth centuries, the factors universally recognized as determinative were the utility or use-qualities of goods, but especially their cost of production. Later on, in the sixteenth and seventeenth centuries, risk and scarcity were given considerable prominence as value determinants. Now cost of production in the Middle Ages was mainly labor cost; hence the standard of value was chiefly a labor standard. Moreover, this labor doctrine of true value and equality in exchanges was strongly reinforced by another medieval principle, according to which labor was the supreme if not the only just title to rewards.

How was labor cost to be measured, and the different kinds of labor evaluated? By the necessary and customary expenditures of the class to which the laborer

belonged. Medieval society was composed of a few definite, easily recognized, and relatively fixed orders or grades, each of which had its own function in the social hierarchy, its own standard of living, and its moral right to a livelihood in accordance with that standard. Like the members of the other orders, the laborers were conceived as entitled to live in conformity with their customary class-requirements. From this it followed that the needs of the laborer became the main determinant of the cost of production, and of the value and just price of goods. Inasmuch as the standards of living of the various divisions of the workers were fixed by custom, and limited by the restricted possibilities of the time, they afforded a fairly definite measure of value and price—much more definite than the standard of general utility. To Langenstein, vice chancellor of the University of Paris in the latter half of the fourteenth century, the matter seemed quite simple; for he declared that everyone could determine for himself the just price of his wares by referring to the customary needs of his rank of life.[1]

Nevertheless, class needs are not and cannot be a standard of exchange-equivalence. They cannot become a criterion of equality, a common denominator, a third term of comparison, between labor and wages. When we say that a given amount of wages is equal to a given content of livelihood, we express a purely economic, positive, and mathematical relation: when we say that a given amount of labor is equal to a given content of livelihood, we are either talking nonsense or expressing a purely ethical relation; that is, declaring that this labor *ought* to equal this livelihood. In other words, we are introducing a fourth term of comparison; namely, the moral worth or personal dignity of the laborer. Thus, we have not a single and common standard to measure both labor and wages, and to indicate a relation of equality between them. While class needs directly measure wages, they do not measure

[1] Cf. Polier, op. cit., pp. 66-75.

labor, either quantitatively, or qualitatively, or under any other aspect or category.

Aside from this purely theoretical defect, the canonist doctrine of wage justice was fairly satisfactory as applied to the conditions of the Middle Ages. It assured to the laborer of that day a certain rude comfort, and probably as large a proportion of the product of industry as was practically attainable. Nevertheless it is not a universally valid criterion of justice in the matter of wages; for it makes no provision for those laborers who deserve a wage in excess of the cost of living of their class; nor does it furnish a principle by which a whole class of workers can justify their advance to a higher standard of living. It is not sufficiently elastic and dynamic.

A Modern Variation of the Medieval Theory

In spite of its fundamental impossibility, the concept of exchange-equivalence still haunts the minds of certain Catholic writers.[1] They still strive to get a formula to express equality between labor and remuneration. Perhaps the best known and least vulnerable of the attempts made along this line is that defended by Charles Antoine, S. J.[2] Justice, he declares, demands an objective equivalence between wages and labor; and objective equivalence is determined and measured by two factors. The remote factor is the cost of decent living for the laborer; the proximate factor is the economic value of his labor. The former describes the *minimum* to which the worker is entitled; the latter comprises perfect and adequate justice. In case of conflict between the two factors, the first is determinative of and morally superior to the second; that is to say, no matter how small the economic value of labor may *seem* to be, it never can descend below the requisites of a decent livelihood.

Now, neither of these standards is in harmony with the

[1] Cf. Polier, op. cit., pp. 92-95.
[2] "Cours d' Économie Sociale," pp. 598, sq.

principle of exchange-equivalence, nor capable of serving as a satisfactory criterion of wage justice. Father Antoine argues that labor is always the moral equivalent of a decent livelihood because the worker expends his energies, and gives out a part of his life in the service of his employer. Unless his wage enables the laborer to replace these energies and conserve his life, it is not the equivalent of the service. If the wage falls short of this standard the laborer gives more than he receives, and the contract is essentially unjust. In this conception of equivalence, energy expended, instead of cost of living, becomes the term of comparison and the common measure of labor and remuneration. Energy expended is, however, technically incapable of providing such a common standard, for it does not measure both related terms in the same way. The service rendered to the employer is the *effect* rather than the equivalent of the energy expended; and the compensation is a *means* to the replacement of this energy rather than its formal equivalent. Moreover, the formula does not even furnish an adequate rational basis for the claim to a decent minimum wage. A wage which is merely adequate to the replacement of expended energy and the maintenance of life, is really inadequate to a decent livelihood. Such compensation would cover only physical health and strength, leaving nothing for intellectual, spiritual, and moral needs. As Father Antoine himself admits and contends, the latter needs are among the elements of a decent livelihood, and a wage which does not make reasonable provision for them fails to comply with the minimum requirements of justice.

The second factor of "objective equivalence" is even more questionable than the first. To be *completely* just, says Father Antoine, wages must be not merely adequate to a decent livelihood, but equivalent to the "economic value of the labor" ("la valeur économique du travail"). This "economic value" is determined objectively by the cost of production, the utility of the product, and

the movement of supply and demand; subjectively, by the judgment of employers and employees. In case of conflict between these two measures of value, and in case of uncertainty concerning the objective measure, the decision of the subjective determinant must always prevail.

These statements are hopelessly ambiguous and confusing. If the objective measure of "economic value" is to be understood in a purely positive way, it merely means the wages that actually obtain in a competitive market. In the purely positive or economic sense, the utility of labor is measured by what it will command in the market, the movement of supply and demand is likewise reflected in market wages, and the determining effect of cost of production is also seen in the share that the market awards to labor after the other factors of production have taken their portions of the product. In other words, the "economic value" of labor is simply its market value. This, however, is not Father Antoine's meaning; for he has already declared that the "economic value" of labor is never less than the equivalent of a decent livelihood, whereas we know that the market value often falls below that level. In his mind, therefore, "economic value" has an ethical signification. It indicates at least the requisites of decent living, and it embraces more than this in some cases. When? and how much more? Let us suppose a business so prosperous that it returns liberal profits to the employer and the prevailing rate of interest on the capital, and yet shows a surplus sufficient to give all the laborers ten dollars a day. Is "cost of production" to be interpreted here as allowing only the normal rate of profits and interest to the business man and the capitalist, leaving the residue to labor? Or is it to be understood as requiring that the surplus be divided among the three agents of production? In other words, is the "economic value" of labor in such cases to be determined by some ethical principle which tells beforehand how much the other agents than labor ought to receive? If so, what is this principle?

None of these questions is satisfactorily answered in Father Antoine's pages. They are all to be solved by having recourse to the subjective determinant of "economic value"; namely, the judgment of employers and employees. Thus his proximate factor of justice in wages, his formula of complete as against minimum just wages, turns out to be something entirely subjective, and more or less arbitrary. It is in no sense a measure of the equivalence between work and pay.

Moreover, it is inadequate as a measure of justice. Should the majority of both employers and employees fix the "economic value" of the labor of carpenters at five dollars a day, there would be no certainty that this decision was correct, and that this figure represented just wages. Should they determine upon a rate of fifty dollars a day, we could not be sure that their decision was unjust. Undoubtedly the combined judgment of employers and employees will set a fairer wage than one fixed by either party alone, since it will be less one-sided; but there is no sufficient reason for concluding that it will be in all cases completely just. Undoubtedly employers and employees know what wages an industry can afford at prevailing prices, on the assumption that business ability and capital are to have a certain rate of return; but there is no certainty that the prevailing prices are fair, or that the assumed rates of profits and interest are fair. In a word, the device is too arbitrary.

To sum up the entire discussion of exchange-equivalence theories: Their underlying concept is fundamentally unsound and impracticable. All of them involve an attempt to compare two entities which are utterly incommensurate. There exists no third term, or standard, or objective fact, which will inform men whether any rate of wages is the equivalent of any quantity of labor.

III. Productivity Theories

The productivity concept of wage justice appears in a

great variety of forms. The first of them that we shall consider is advocated mainly by the Socialists, and is usually referred to as the theory of the "right to the whole product of labor." [1]

Labor's Right to the Whole Product

We have seen that Adam Smith's belief in the normality and beneficence of free competition would have logically led him to the conclusion that competitive wages were just; and we know that this doctrine is implicit in his writings. On the other hand, his theory that all value is determined by labor would seem to involve the inference that all the value of the product belongs to the laborer. As a matter of fact, Smith restricted this conclusion to primitive and pre-capitalist societies. Apparently he, and his disciples in an even larger degree, was more interested in describing the supposed beneficence of competition than in justifying the distribution that resulted from the competitive process.

The early English Socialists were more consistent. In 1793 William Godwin, whom Anton Menger calls "the first scientific Socialist of modern times," laid down in substance the doctrine that the laborer has a right to the whole product.[2] In 1805 Charles Hall formulated and defended the doctrine with greater precision and consistency.[3] In 1824 the doctrine was stated more fundamentally, systematically, and completely by William Thompson.[4] He accepted the labor theory of value laid down by Adam Smith, and formally derived therefrom the ethical conclusion that the laborer has a right to the whole product. "Thompson and his followers are only original in so far as they consider rent and interest to be *unjust*

[1] Polier, op. cit., pp. 219-359; Menger, "The Right to the Whole Produce of Labor"; English Translation. London; 1899.
[2] "Enquiry Concerning Political Justice."
[3] "On the Effects of Civilization on the People of European States."
[4] "An Inquiry Into the Principles of the Distribution of Wealth Most Conducive to Human Happiness."

deductions, which violate the right of the laborer to the whole product of his labor." [1] He denounced the laws which empowered the land owner and the capitalist to appropriate value not created by them, and gave to the value thus appropriated the name, "surplus value." In the use of this term he anticipated Karl Marx by several years. His doctrines were adopted and defended by many other English Socialist writers, and were introduced into France by the followers of Saint-Simon. "From his works," says Menger, "the later Socialists, the Saint-Simonians, Proudhon, and above all, Marx and Rodbertus, have directly or indirectly drawn their opinions." [2]

Although Saint-Simon never accepted the doctrine of the laborer's right to the whole product, his disciples, particularly Enfantin and Bazard, taught it implicitly. In a just social state, they maintained, every one would be expected to labor according to his capacity, and would be rewarded according to his product.[3]

Perhaps the most theoretical and extreme statement of the theory that we are considering is found in the writings of P. J. Proudhon.[4] He maintained that the real value of products was determined by labor time, and that all kinds of labor should be regarded as equally effective in the value-creating process, and he advocated therefore equality of wages and salaries. For the realization of this ideal he drew the outlines of a semi-anarchic social order, of which the main feature was gratuitous public credit. Neither his theories nor his proposals ever obtained any considerable number of adherents.

A milder and better reasoned form of the theory was set forth by Karl J. Rodbertus.[5] Professor Wagner calls him, "the first, the most original, and the boldest repre-

[1] "Menger," op. cit., p. 56.
[2] Op. cit., p. 51.
[3] Cf. Menger, op. cit., pp. 62-73.
[4] "Qu' est-ce que la propriété ou recherches sur la principe du droit et du gouvernment." 1840.
[5] "Zur Erkentniss unserer staatswirthschaftlichen Zustande," 1842.

sentative of scientific Socialism in Germany." Yet, as Menger points out, Rodbertus derived many of his doctrines from Proudhon and the Saint-Simonians. He admitted that in a capitalist society the value of commodities does not always correspond to the labor embodied in them, and that different kinds of labor are productive in different degrees. Therefore, he had recourse to the concept of a normal, or average, day's labor in any group, and would have the various members of the group remunerated with reference to this standard. This was to be brought about by a centralized organization of industry in which the whole product would ultimately go to labor, and the share of the individual worker would be determined by his contribution of socially necessary labor.

Although Karl Marx adopted and formulated in his own terms the theory that value is determined by labor, he did not thence deduce the conclusion that labor has a right to the whole product.[1] Being a materialist, he consistently rejected conceptions of abstract justice or injustice, rights or wrongs. In opposition to the methods of his predecessors, he endeavored to discover the historical and positive forces which determined the actual distribution, and to derive therefrom the laws that were necessarily preparing the way for a new social order. While he contended that rent receivers and interest receivers appropriated the surplus value created by labor, he refrained from stigmatizing this process as morally wrong. It was merely a necessary element of the capitalist system. To call it unjust was in Marx' view to use language without meaning. As well might one speak of the injustice of a hurricane or an avalanche. Not the preaching of abstract justice, but the inevitable transformation of the capitalist into the collectivist organization of industry, would enable labor to obtain its full product.

Nevertheless, it is probably true that a majority of the followers of Marx have drawn from his labor theory of

[1] "Das Kapital," 1867.

value the inference that all the value of the product belongs by a moral right to the laborer. So deeply fixed in the human conscience is the conception of justice, and so general is the conviction of the laborer's right to his product, that most Socialists have not been able to maintain a position of consistent economic materialism. Indeed, Marx himself did not always succeed in evading the influence and the terminology of idealistic conceptions. He frequently thought and spoke of the Socialist régime as not only inevitable but as morally right, and of the capitalist system as morally wrong. Despite his rigid, materialistic theorizing, his writings abound in passionate denunciation of existing industrial evils, and in many sorts of "unscientific" ethical judgments.[1]

In so far as the right to the whole product of labor has been based upon the labor theory of value, it may be summarily dismissed from consideration. The value of products is neither created nor adequately measured by labor; it is determined by utility and scarcity. Labor does, indeed, affect value, inasmuch as it increases utility and diminishes scarcity, but it is not the only factor that influences these categories. Natural resources, the desires and the purchasing power of consumers determine value quite as fundamentally as does labor, and cause it to vary out of proportion to the labor expended.

To-day there are probably not many adherents of the right-to-the-whole-product doctrine who attempt to base it upon any theory of value. The majority appeal to the simple and obvious fact that the laborers, together with the active directors of industry, are the only human beings who expend energy in the productive process. The only labor that the capitalist and the landowner perform in return for the interest and rent that they respectively receive, consists in choosing the particular goods in which their money is to be invested. As capitalist and landowner, they do not participate in the turning out of prod-

[1] Cf. Polier, op. cit., pp. 352, sq.

ucts. They are owners but not operators of the factors of production. In the sense, therefore, of active agents the laborers and the business men are the only producers. Whether land and capital should be called *productive,* whether the product should be regarded as *produced* by land and capital as well as by labor and undertaking activity, is mostly a matter of terminology. Inasmuch as they are instrumental in bringing forth the product, land and capital may properly be designated as productive, but not in the same sense as labor and business energy. The former are passive factors and instrumental causes of the product, while the latter are active factors and original causes. Moreover, the former are non-rational entities, while the latter are attributes of human beings.

As we have seen in former chapters, it is impossible to prove that mere ownership of a productive thing, such as a cow, a piece of land, or a machine, necessarily creates a right to either the concrete or the conventional product. The formula, *"res fructificat domino,"* is not a self-evident proposition. Nor are there any premises available from which the formula can be logically and necessarily deduced. On the other hand, we cannot prove conclusively that ownership of productive property does *not* give a right to the product. Whence it follows that the owners of land and capital have at least a presumptive claim to take rent and interest from their possessions. Moreover, those owners of capital who would not have saved money without the hope of interest have a just claim thereto on account of their sacrifices in saving.

Would the State be justified in abolishing rent and interest, and thus enabling labor to obtain the whole product? Conceivably this result might be brought about under the present system of private ownership, or through the substitution of collectivism. Were the change made by the former method land and capital would no longer be sought or have value on account of their annual revenues, but only as receptacles of saving. They would be

desired solely as means of accumulating stores of goods which might be exchanged for articles of consumption sometime in the future. While we cannot estimate even approximately the decline that would thus occur in the value of land and capital, we may safely assert that it would be considerable. Unless the proprietors received adequate compensation for this loss, they would be compelled to suffer obvious and grave injustice. Any attempt, however, to carry out such a scheme, either with or without compensation, would inevitably fail. Rent might be terminated through the Single Tax, but interest could not be abolished by any mere legal prohibition. Nor does Socialism afford a way out; for, as we have seen in a former chapter, it is an impracticable system. Consequently the theory of the right to the whole product of labor is confronted by the final objection that its realization would involve greater evils and injustices than those which it seeks to abolish.

Finally, the theory is radically incomplete. It professes to describe the requirements of justice as between the landowners and capitalists on the one side, and the wage earners on the other; but it provides no rule for determining distributive justice as between different classes of labor. In none of its forms does it provide any comprehensive rule or principle to ascertain the difference between the products of different laborers, and to decide how the product belonging to any group of men as a whole should be divided among the individual members. Does the locomotive engineer produce more than the section hand, the bookkeeper more than the salesman, the ditch digger more than the teamster? These and countless similar questions are, from the nature of the productive process, unanswerable. Even if it were ethically acceptable, the doctrine of the right to the whole product is hopelessly inadequate.

As intimated above, the notion that if the laborer receives compensation according to his product he receives just compensation, is one of the most prevalent and funda-

mental concepts in the controversy about wage justice. Hence we find it in certain theories which reject the doctrine of the right to the whole product. According to these theories, not only the laborer but all the agents of production should be rewarded in proportion to their productive contributions. Instead of the whole product, the worker ought to receive that portion of it which corresponds to his specific productivity, that is, that portion of the product which represents his productive influence as compared with the productive efficacy of land, capital, and business energy.

Clark's Theory of Specific Productivity

One of the theories referred to in the last paragraph is that which has been elaborated in great detail and with great ingenuity by Professor John Bates Clark. As stated by himself in the opening sentence of the preface to his "Distribution of Wealth," its main tenet is, "that the distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates." In a régime of perfect competition, therefore, the laborer would get, not the whole product of industry, but the whole product due to his own exertions.

It is impossible, and indeed unnecessary, to enter upon an extended examination of this contention. It will be sufficient to state in a summary way the most obvious and cogent objections. Without making any examination of Professor Clark's theory, we should expect to find it unconvincing. For the productive process is by analogy an organic process, in which every factor requires the coöperation of every other factor in order to turn out even the smallest portion of the product. Each factor is in its own order the cause of the whole product. Consequently no physical portion of the product can be set aside and designated as wholly due to any one factor.

Apparently the majority of economists do not accept Professor Clark's theory; for of the nine who discussed it at the nineteenth annual meeting of the American Economic Association only one approved it, three were noncommittal, and five expressed dissent.[1]

Even if the theory were true its hypothetical character would deprive it of any practical value. It assumes a régime of perfect competition, but this assumption is so seldom realized that no rule based upon it can throw much light on the question of the productivity of present-day laborers.

Even if it were exactly applicable to existing conditions, that is, if laborers were actually getting their specific products, the theory would not provide us with a doctrine of just wages. As we have seen in former chapters, productivity is neither the only nor the highest canon of justice, whether as regards the comparative claims of capital and labor, or as regards the claims of different laborers. The contention that capital ought to command interest because it aids in bringing forth the product, is neither self evident nor demonstrable by any process of reasoning. Even if we should concede that the capitalist has a right to interest by virtue of the productivity of his capital, we should not therefore conclude that this right is as cogent as the corresponding right of the laborer. In the former case the productive agency is not human nor active, but only material and passive; and the recipient of the product performs no labor as capitalist, but is left free to get a livelihood by personal activity. The productivity of labor differs in all these respects, and the difference is ethically sufficient to justify the claim that the laborer may sometimes have a right to a part of the specific product of capital. To sum up the matter in the words of Professor Wicker: "To have proved that the capitalist gets in interest what his capital produces is not to have proved that the capitalist gets what he has earned. To have

[1] "Proceedings," pp. 231-54.

proved that the landlord gets what his land produces is not to have proved that the landlord earns his distributive share. . . . Economics is not ethics; explanation is not justification." [1]

Indeed, Professor Clark nowhere explicitly asserts that productivity is an adequate rule of justice. "We might raise the question," he says, "whether a rule that gives to a man his product is in the highest sense just." [2] Scattered throughout his volume, however, are many expressions which might fairly be interpreted as answering this question in the affirmative. The statements that distribution according to product is a "natural law," and that if the laborer does not get his full specific product he is "despoiled," suggest if they do not imply that wages according to productivity is not merely the economic but the ethical norm. At any rate, the assumption of productivity as the adequate canon of wage justice, is very widely adopted, and is frequently brought forward to give sanction to insufficient rates of remuneration. Hence it has been thought well to show that the economic basis of the assumption, *i.e.*, that the laborer gets what he produces, is unproved and unprovable.

Carver's Modified Version of Productivity

Professor Carver makes no attempt to ascertain or state the exact physical productivity of labor as compared with that of capital, but confines his attention to what he calls the "economic" productivity of a given unit of labor in a given productive process.[3] "Find out accurately how much the community produces with his [the laborer's] help, over and above what it produces without his help, and you have an exact measure of his productivity." [4] By this rule we can determine a man's productivity not

[1] "Proceedings of the 22d Annual Meeting of the American Economic Association," pp. 160, 161.

[2] Op. cit., p. 8.

[3] "Essays in Social Justice"; especially ch. vii.

[4] Op. cit., pp. 187, 188.

only as compared with his inactivity in relation to a given industry or establishment, but as compared with the productivity of some other man who might be substituted for him. Thus understood, productivity expresses the value of a man to the industrial process in which he participates. It "determines how much a man is worth, and consequently, according to our criterion of justice, how much a man ought to have as a reward for his work." [1]

While this conception of productivity is relatively simple, and the canon of justice based upon it is somewhat plausible, neither is adequate. To many situations the productivity test is substantially inapplicable. The removal from industry of the man who works alone; for example, the independent shoemaker, blacksmith, tailor or farmer would result not in a certain diminution, but in the entire non-appearance of the product and the removal of the capital or tools would have precisely the same effect. According to the former method, the laborer is to be credited with the whole product, and capital with nothing; according to the latter method, capital produces everything, and labor nothing. Even when several laborers are employed in an establishment, the test is inapplicable to those who are engaged upon indispensable tasks; for example, the engineer in the boiler room of a small factory, and the bookkeeper in a small store. Remove them, and you have no product at all; hence a rigid enforcement of Professor Carver's test would award them the whole product. To be sure, we can get some measure of the productivity of these men by observing the effect on the product when inferior men are put in their places; but this merely enables us to tell how much more they are worth than other men, not their total worth. Moreover, even the substitution test is not always practicable. The attempt to ascertain the productivity of a workman of high technical skill by putting in his place an utterly unskilled laborer, would not yield very satisfactory results, either to the inquiry or to the

[1] Op. cit., p. 201

industry. In the majority of such cases the difference in the resulting product would probably far exceed the difference in the existing wage rates of the two men, thus showing that the skilled worker is getting considerably less than he is "economically worth."

In the field to which it is applicable; namely, that of more or less unspecialized labor in large establishments, Professor Carver's theory violates some of the most fundamental conceptions of justice and humanity. He admits that it takes no account of the laborer's efforts, sacrifices, or needs, and that when unskilled labor becomes too plentiful, the value of the product may fall below the cost of supporting a decent standard of living. While he looks with some sympathy upon the demand for a minimum wage of two dollars per day, he contends that unless the laborer really *earns* that amount, some other man will be paid less than he earns, "which would be unjust." To "earn" two dollars a day means, in Professor Carver's terminology, to add that much value to the product of the establishment in which the laborer is employed; for this is the measure of the laborer's productivity. If all the men who are now getting less than two dollars a day are receiving the full value of their product, and if all the other workers are likewise given the full value of their product, an increase in the remuneration of the former will mean a deduction from the compensation of the latter.

These conclusions of ethical pessimism are extremely vulnerable. As we have shown in chapter xvi, efforts, sacrifices and needs are superior to productivity as claims to reward, and must be given due consideration in any just scheme of distribution. Professor Carver would leave them out of account entirely. In the second place, it is not always nor necessarily ever true that to raise the wages of the poorest paid laborers will mean to lower the remuneration of those who are better paid. Many workers, particularly women, are now receiving less than the measure of their "productivity," less than they "earn," less than their

worth to the employer, less than he would be willing to pay rather than go without their services. Professor Carver would, of course, not deny that the wages of all such laborers could be raised without affecting the remuneration of other workers. Even when the poorest paid class is receiving all that its members are at present worth to the employer, an increase in their compensation would not necessarily come out of the fund available for the better paid. It could be deducted from excessive profits and interest; for we know well that in many industries competition does not automatically keep down these shares to the minimum necessary to retain the services of business ability and capital. It could be provided to some extent out of the enlarged product that would result from improvements in the productive process, and from the increased efficiency of those workers whose wages had been raised. Finally, the increased remuneration could be derived from increased prices. When we speak of the unskilled laborer as getting all that he produces, or all that he earns, we refer not to his concrete product, but to the value of that product, to the selling price of the product. Neither this price, nor any other existing price, has anything about it that is either economically or ethically sacred. In a competitive market current prices are fixed by the forces of supply and demand, which often involve the exploitation of the weak; in a monopoly market they are set by the desires of the monopolist, which are likewise destitute of moral validity. Hence a minimum wage law which would raise the price and value of the product sufficiently to provide living wages for the unskilled workers, thus increasing their "productivity" and enabling them to "earn" the legal wage, would neither violate the principles of justice, nor necessarily diminish the compensation of any other laboring group. To be sure, the increased prices might be followed by such a lessening of demand for the product as to diminish employment; but this is another matter which has no direct bearing on either the economic or the ethical phases of productivity

and earning power. And the disadvantages involved in the supposition of a reduced volume of employment may possibly be not so formidable socially as those which accompany a large volume of insufficiently paid occupations. This question will receive further consideration in a later chapter.

In the meantime, we conclude that Professor Carver's rule is inapplicable to a large part of the industrial field, and that where it does apply it frequently runs counter to some of the principles of distributive justice.

CHAPTER XXIII

THE MINIMUM OF JUSTICE: A LIVING WAGE

ALTHOUGH the principle of needs is somewhat prominent among the theories of wage justice, it received only incidental mention in the last chapter. Considered as a comprehensive rule, this principle has been defended with less energy and definiteness than most of the other canons. Considered as a partial rule, it is sound and fundamental, and therefore could not have been classed among theories that are unacceptable.

The Principle of Needs

Many of the early French Socialists of the Utopian school advanced this formula of distribution: "From each according to his powers; to each according to his needs." It was also put forward by the German Socialists in the Gotha Program in 1875. While they have not given to this standard formal recognition in their more recent platforms, Socialists generally regard it as the ideal rule for the distant future.[1] The difficulties confronting it are so great and so obvious that they would defer the introduction of it to a time when the operation of their system will, they hope, have eradicated the historical human qualities of laziness and selfishness. To adopt needs as the sole rule of distribution would mean, of course, that each person should be rewarded in proportion to his wants and desires, regardless of his efforts or of the amount that he had produced. The mere statement of the proposal is sufficient to refute it as regards the men and women of whom we have any

[1] Cf. Skelton, "Socialism: A Critical Analysis," p. 202; Menger, "The Right to the Whole Produce of Labor," pp. 8, sq.

knowledge. In addition to this objection, there is the insuperable difficulty of measuring fairly or accurately the relative needs of any group composed of men, women, and children. Were the members' own estimates of their needs accepted by the distributing authority, the social product would no doubt fall far short of supplying all. If the measurement were made by some official person or persons, "the prospect of jobbery and tyranny opened up must give the most fanatical pause." Indeed, the standard of needs should be regarded as a canon of Communism rather than of Socialism; for it implies a large measure of common life as well as of common ownership, and paternalistic supervision of consumption as well as collectivist management of production.

While the formula of needs must be flatly rejected as a complete rule of distributive justice, or of wage justice, it is valid and indispensable as a partial standard. It is a partial measure of justice in two senses: first, inasmuch as it is consistent with the admission and operation of other principles, such as productivity and sacrifice; second, inasmuch as it can be restricted to certain fundamental requisites of life, instead of being applied to all possible human needs. It can be made to safeguard the minimum demands of reasonable life, and therefore to function as a minimum standard of wage justice.

Human needs constitute the primary title or claim to material goods. None of the other recognized titles, such as productivity, effort, sacrifice, purchase, gift, inheritance, or first occupancy, is a fundamental reason or justification of either rewards or possessions. They all assume the existence of needs as a prerequisite to their validity. If men did not need goods they could not reasonably lay claim to them by any of the specific titles just enumerated. First comes the general claim or fact of needs; then the particular title or method by which the needs may be conveniently supplied. While these statements may seem elmentary and platitudinous, their practical value will be quite evident

when we come to consider the conflicting claims that sometimes arise out of the clash between needs and some of the other titles. We shall see that needs are not merely a physical reason or impulse toward acquisition and possession, but a moral title which rationalizes the claim to a certain amount of goods.

Three Fundamental Principles

The validity of needs as a partial rule of wage justice rests ultimately upon three fundamental principles regarding man's position in the universe. The first is that God created the earth for the sustenance of *all* His children; therefore, that all persons are equal in their inherent claims upon the bounty of nature. As it is impossible to demonstrate that any class of persons is less important than another in the eyes of God, it is logically impossible for any believer in Divine Providence to reject this proposition. The man who denies God or Providence can refuse assent to the second part of the proposition only by refusing to acknowledge the personal dignity of the human individual, and the equal dignity of all persons. Inasmuch as the human person is intrinsically sacred and morally independent, he is endowed with those inherent prerogatives, immunities, and claims that we call rights. Every person is an end in himself; none is a mere instrument to the convenience or welfare of any other human being. The worth of a person is something intrinsic, derived from within, not determined or measurable by reference to any earthly object or purpose without. In this respect the human being differs infinitely from, is infinitely superior to, a stone, a rose, or a horse. While these statements help to illustrate what is meant by the dignity of personality, by the intrinsic worth, importance, sacredness of the human being, they do not prove the existence of this inherent juridical quality. Proof in the strict sense is irrelevant and impossible. If the intrinsic and equal moral worth of all persons be not self evident to a man, it will not approve

itself to him through any process of argumentation. Whosoever denies it can also logically deny men's equal claims of access to the bounty of the earth; but he cannot escape the alternative conclusion that brute force, exercised either by the State or by individuals, is the only proper determinant of possessions and of property. Against this contention it is not worth while to offer formal argument.

The second fundamental principle is that the inherent right of access to the earth is conditioned upon, and becomes actually valid through, the expenditure of useful labor. Generally speaking the fruits and potentialities of the earth do not become available to men without previous exertion. "In the sweat of thy brow thou shalt eat thy bread," is a physical no less than a moral commandment. There are, indeed, exceptions: the very young, the infirm, and the possessors of a sufficient amount of property. The two former classes have claims to a livelihood through piety and charity, while the third group has at least a presumptive claim of justice to rent and interest, and a certain claim of justice to the money value of their goods. Nevertheless, the general condition is that men must work in order to live. "If a man will not work neither shall he eat." For those who refuse to comply with this condition the inherent right of access to the earth remains suspended.

The two foregoing principles involve as a corollary a third principle: the men who are in present control of the opportunities of the earth are obliged to permit reasonable access to these opportunities by persons who are willing to work. In other words, possessors must so administer the common beauty of nature that non-owners will not find it unreasonably difficult to get a livelihood. To put it still in other terms, the right to subsist from the earth implies the right of access thereto on reasonable terms. When any man who is willing to work is denied the exercise of this right, he is no longer treated as the moral and juridical equal of his fellows. He is regarded as inherently inferior to them, as a mere instrument to their convenience;

and those who exclude him are virtually taking the position that their rights to the common gifts of the Creator are inherently superior to his birthright. Obviously this position cannot be defended on grounds of reason. Possessors are no more justified in excluding a man from reasonable access to the goods of the earth than they would be in depriving him of the liberty to move from place to place. The community that should arbitrarily shut a man up in prison would not violate his rights more fundamentally than the community or the proprietors who should shut him out from the opportunity of getting a livelihood from the bounty of the earth. In both cases the man demands and has a right to a common gift of God. His moral claim is as valid to the one good as to the other, and it is as valid to both goods as is the claim of any of his fellows.

The Right to a Decent Livelihood

Every man who is willing to work has, therefore, an inborn right to sustenance from the earth on reasonable terms or conditions. This cannot mean that all persons have a right to equal amounts of sustenance or income; for we have seen on a preceding page that men's needs, the primary title to property, are not equal, and that other canons and factors of distribution have to be allowed some weight in determining the division of goods and opportunities. Nevertheless, there is a certain minimum of goods to which every worker is entitled by reason of his inherent right of access to the earth. He has a right to at least a *decent* livelihood. That is; he has a right to so much of the requisites of sustenance as will enable him to live in a manner worthy of a human being. The elements of a decent livelihood may be summarily described as: food, clothing, and housing sufficient in quantity and quality to maintain the worker in normal health, in elementary comfort, and in an environment suitable to the protection of morality and religion; sufficient provision for the future to bring elementary contentment, and security against sick-

ness, accident, and invalidity; and sufficient opportunities of recreation, social intercourse, education, and church-membership to conserve health and strength and to render possible in some degree the exercise of the higher faculties.

On what ground is it contended that a worker has a right to a decent livelihood, as thus defined, rather than to a bare subsistence? On the same ground that validates his right to life, marriage, or any of the other fundamental goods of human existence. On the dignity of personality. Why is it wrong and unjust to kill or maim an innocent man? Because human life and the human person possess intrinsic worth; because personality is sacred. But the intrinsic worth and sacredness of personality imply something more than security of life and limb and the material means of bare existence. The man who is not provided with the requisites of normal health, efficiency and contentment lives a maimed life, not a reasonable life. His physical condition is not worthy of a human being. Furthermore, man's personal dignity demands not merely the conditions of reasonable physical existence, but the opportunity of pursuing self-perfection through the harmonious development of all his faculties. Unlike the brutes, he is endowed with a rational soul, and the capacity of indefinite self-improvement. A due regard to these endowments requires that man shall have the opportunity of becoming not only physically stronger, but intellectually wiser, morally better, and spiritually nearer to God. If he is deprived of these opportunities he cannot realize the potentialities of his nature nor attain the divinely appointed end of his nature. He remains on the plane of the lower animals. His personality is violated quite as fundamentally as when his body is injured or his life destroyed.

While it is impossible to define with mathematical precision the degree of personal development that is necessary to satisfy the claims of personal dignity, it is entirely practicable to state with sufficient definiteness the minimum conditions of such development. They are that quantity

of goods and opportunities which fair-minded men would regard as indispensable to humane, efficient, and reasonable life. The summary description of a decent livelihood at the end of the second last paragraph, would probably be accepted by all men who really believe in the intrinsic worth of personality.

The Laborer's Right to a Living Wage

The wage earner's right to a decent livelihood in the abstract means in the concrete a right to a living wage. To present the matter in its simplest terms, let us consider first the adult male laborer of average physical and mental ability who is charged with the support of no one but himself, and let us assume that the industrial resources are adequate to such a wage for all the members of his class. Those who are in control of the resources of the community are morally bound to give such a laborer a living wage. If they fail to do so they are unreasonably hindering his access to a livelihood on reasonable terms, and his right to a livelihood on reasonable terms is violated. The central consideration here is evidently the *reasonableness* of the process. Unlike the business man, the rent receiver, and the interest receiver, the laborer has ordinarily no other means of livelihood than his wages. If these do not furnish him with a decent subsistence he is deprived of a decent subsistence. When he has performed an average day's work, he has done all that is within his power to make good his claim to a decent livelihood. On the other hand, the community is the beneficiary of his labor, and desires his services. If, indeed, the community would rather do without the services of an individual laborer than pay him a living wage, it is morally free to choose the former alternative, precisely as it is justified in refusing to pay a price for groceries that will enable an inefficient grocer to obtain living profits. Whatever concrete form the right of such persons to a decent livelihood may take, it is not the right to living wages or living profits from the occupations

in question. Here, however, we are discussing the laborer to whom the community would rather pay a living wage than not employ him at all. To refuse such a one a living wage merely because he can be constrained by economic pressure to work for less, is to treat him unreasonably, is to deprive him of access to a livelihood on reasonable terms. Such treatment regards the laborer as inferior to his fellows in personal worth, as a mere instrument to their convenience. It is an unreasonable distribution of the goods and opportunities of the earth.

Obviously there is no formula by which such conduct can be mathematically demonstrated as unreasonable; but the proposition is as certain morally as any other proposition that is susceptible of rational defense in the field of distribution. No man who accepts the three fundamental principles stated some pages back, can deny the right of the laborer to a living wage. The man who does not accept them must hold that all property rights are the arbitrary creation of the State, or that there is no such thing as a moral right to material goods. In either supposition the distribution and possession of the earth's bounty are subject entirely to the arbitrament of might. There is nothing to be gained by a formal criticism of this assumption.

What persons, or group, or authority is charged with the obligation which corresponds to the right to a living wage? We have referred to "the community" in this connection, but we do not mean the community in its corporate capacity, *i.e.*, the State. As regards private employment, the State is not obliged to pay a living wage, nor any other kind of wage, since it has not assumed the wage-paying function with respect to these laborers. As protector of natural rights, and as the fundamental determiner of industrial institutions, the State is obliged to enact laws which will enable the laborer to obtain a living wage; but the duty of actually providing this measure of remuneration rests upon that class which has assumed the wage-paying function. This is the employers. In our present

industrial system, the employer is society's paymaster. He, not the State, receives the product out of which all the agents of production must be rewarded. Where the laborer is engaged in rendering personal services to his employer, the latter is the only beneficiary of the laborer's activity. In either case the employer is the only person upon whom the obligation of paying a living wage can primarily fall.

If the State were in receipt of the product of industry, the wage-paying fund, it would naturally be charged with the obligation that now rests immediately upon the employer. If any other class in the community were the owners of the product that class would be under this specific obligation. As things are, the employer is in possession of the product, and discharges the function of wage payer; consequently he is the person who is required to perform this function in a reasonable manner.

When the Employer is Unable to Pay a Living Wage

Evidently the employer who cannot pay a living wage is not obliged to do so, since moral duties suppose a corresponding physical capacity. In such circumstances the laborer's right to a living wage becomes suspended and hypothetical, just as the claim of a creditor when the debtor becomes insolvent. Let us see, however, precisely what meaning should reasonably be given to the phrase, "inability to pay a living wage."

An employer is not obliged to pay a full living wage to all his employees so long as that action would deprive himself and his family of a decent livelihood. As active director of a business, the employer has quite as good a right as the laborer to a decent livelihood from the product, and in case of conflict between the two rights, the employer may take advantage of that principle of charity which permits a man to prefer himself to his neighbor, when the choice refers to goods of the same order of importance. Moreover, the employer is justified in taking from the product sufficient to support a somewhat higher scale of

living than generally prevails among his employees; for he has become accustomed to this higher standard, and would suffer a considerable hardship if compelled to fall notably below it. It is reasonable, therefore, that he should have the means of maintaining himself and family in moderate conformity with their customary standard of living; but it is unreasonable that they should indulge in anything like luxurious expenditure, so long as any of the employees fail to receive living wages.

Suppose that an employer cannot pay all his employees living wages and at the same time provide the normal rate of interest on the capital in the business. So far as the borrowed capital is concerned, the business man has no choice; he must pay the stipulated rate of interest, even though it prevents him from giving a living wage to all his employees. Nor can it be reasonably contended that the loan capitalist in that case is obliged to forego the interest due him. He cannot be certain that this interest payment, or any part of it, is really necessary to make up what is wanting to a complete scale of living wages. The employer would be under great temptation to defraud the loan capitalist on the pretext of doing justice to the laborer, or to conduct his business inefficiently at the expense of the loan capitalist. Anyhow, the latter is under no obligation to leave his money in a concern that is unable to pay him interest regularly. The general rule, then, is that the loan capitalist is not obliged to refrain from taking interest in order that the employees may have living wages.

Is the employer justified in withholding the full living wage from his employees to provide himself with the normal rate of interest on the capital that he has invested in the enterprise? Speaking generally, he is not. In the first place, the right to any interest at all, except as a return for genuine sacrifices in saving, is not certain but only presumptive.[1] Consequently it has no such firm and definite basis as the right to a living wage. In the second place,

[1] See chapters xii and xiii.

the right to interest, be it ever so definite and certain, is greatly inferior in force and urgency. It is an axiom of ethics that when two rights conflict, the less important must give way to the more important. Since all property rights are but means to the satisfaction of human needs, their relative importance is determined by the relative importance of the ends that they serve; that is, by the relative importance of the dependent needs. Now the needs that are supplied through interest on the employer's capital are slight and not essential to his welfare; the needs that are supplied through a living wage are essential to a reasonable life for the laborer. On the assumption that the employer has already taken from the product sufficient to provide a decent livelihood, interest on his capital will be expended for luxuries or converted into new investments; a living wage for the laborer will all be required for the fundamental goods of life, physical, mental, or moral. Evidently, then, the right to interest is inferior to the right to a living wage. To proceed on the contrary theory is to reverse the order of nature and reason, and to subordinate essential needs and welfare to unessential needs and welfare.

Nor can it be maintained that the capitalist-employer's claim to interest is a claim upon the product prior to and independent of the claim of the laborer to a living wage. That would be begging the question. The product is in a fundamental sense the common property of employer and employees. Both parties have coöperated in turning it out, and they have equal claims upon it, in so far as it is necessary to yield them a decent livelihood. Having taken therefrom the requisites of a decent livelihood for himself, the employer who appropriates interest at the expense of a decent livelihood for his employees, in effect treats their claims upon the common and joint product as essentially inferior to his own. If this assumption were correct it would mean that the primary and essential needs of the employees are of less intrinsic importance than the superficial needs of the employer, and that the employees them-

selves are a lower order of being. The incontestable fact is that such an employer deprives the laborers of access to the goods of the earth on reasonable terms, and gives himself an access thereto that is unreasonable.

Suppose that all employers who found themselves unable to pay full living wages and obtain the normal rate of interest, should dispose of their businesses and become mere loan capitalists, would the condition of the underpaid workers be improved? Two effects would be certain: an increase in the supply of loan capital relatively to the demand, and a decrease in the number of active business men. The first would probably lead to a decline in the rate of interest, while the second might or might not result in a diminution of the volume of products. If the rate of interest were lowered the employing business men would be able to raise wages; if the prices of products rose a further increase of wages would become possible. However, it is not certain that prices would rise; for the business men who remained would be the more efficient in their respective classes, and might well be capable of producing all the goods that had previously been supplied by their eliminated competitors. Owing to their superior efficiency and their larger output, the existing business men would be able to pay considerably higher wages than those who had disappeared from the field of industrial direction. As things are to-day, it is the less efficient business men who are unable to pay living wages and at the same time obtain the prevailing rate of interest on their capital. The ultimate result, therefore, of the withdrawal from business of those who could not pay a living wage, would probably be the universal establishment of a living wage.

Of course, this supposition is purely fanciful. Only a small minority of the business men of to-day are likely to be driven by their consciences either to pay a living wage at the cost of interest on their capital, or to withdraw from business when they are confronted with such a situation. Is this small minority under moral obligation to adopt

either of these alternatives, when the effect of such action upon the great mass of the underpaid workers is likely to be very slight? The question would seem to demand an answer in the affirmative. Those employers who paid a living wage at the expense of interest would confer a concrete benefit of great value upon a group of human beings. Those who shrank from this sacrifice, and preferred to go out of business, would at least have ceased to coöperate in an unjust distribution of wealth, and their example would not be entirely without effect upon the views of their fellow employers.

An Objection and Some Difficulties

Against the foregoing argument it may be objected that the employer does his full duty when he pays the laborer the full value of the product or service. Labor is a commodity of which wages are the price; and the price is just if it is the fair equivalent of the labor. Like any other onerous contract, the sale of labor is governed by the requirements of commutative justice; and these are satisfied when labor is sold for its moral equivalent. What the employer is interested in and pays for, is the laborer's activity. There is no reason why he should take into account the laborer's livelihood.

Most of these assertions are correct, platitudinously correct, but they yield us no specific guidance because they use language vaguely and even ambiguously. The contention underlying them was adequately refuted in the last chapter, under the heads of theories of value and theories of exchange-equivalence. At present it will be sufficient to repeat summarily the following points: if the value of labor is to be understood in a purely economic sense it means market value, which is obviously not a universal measure of justice; if by the value of labor we mean its ethical value we cannot determine it in any particular case merely by comparing labor and compensation; we are compelled to have recourse to some extrinsic ethical prin-

ciple; such an extrinsic principle is found in the proposition that the personal dignity of the laborer entitles him to a wage adequate to a decent livelihood; therefore, the ethical value of labor is always equivalent to at least a living wage, and the employer is morally bound to give this much remuneration.

Moreover, the habit of looking at the wage contract as a matter of commutative justice in the mere sense of contractual justice, is radically defective. The transaction between employee and employer involves other questions of justice than that which arises immediately out of the relation between the things exchanged. When a borrower repays a loan of ten dollars, he fulfills the obligation of justice because he returns the full equivalent of the article that he received. Nothing else is pertinent to the question of justice in this transaction. Neither the wealth nor the poverty, the goodness nor the badness, nor any other quality of either lender or borrower, has a bearing on the justice of the act of repayment. In the wage contract, and in every other contract that involves the distribution of the common bounty of nature, or of the social product, the juridical situation is vitally different from the transaction that we have just considered. The employer has obligations of justice, not merely as the receiver of a valuable thing through an onerous contract, but as the *distributor* of the common heritage of nature. His duty is not merely contractual, but social. He fulfills not only an individual contract, but a social function. Unless he performs this social and distributive function in accordance with justice, he does not adequately discharge the obligation of the wage contract. For the product out of which he pays wages is not his in the same sense as the personal income out of which he repays a loan. His claim upon the product is subject to the obligation of just distribution; the obligation of so distributing the product that the laborers who have contributed to the product shall not be denied their right

to a decent livelihood on reasonable terms from the bounty of the earth. On the other hand, the activity of the laborer is not a mere commodity, as money or pork; it is the output of a person, and a *person* who has no other means of realizing his inherent right to a livelihood. Consequently, both terms of the contract, the labor and the compensation, involve other elements of justice than that which arises out of their assumed mutual equivalence.

In a word, justice requires the employer not merely to give an equivalent for labor (an equivalent which is determined by some arbitrary, conventional, fantastic, or impossible attempt to compare work and pay) but to fulfill his obligation of justly distributing that part of the common bounty of the earth which comes into his hands by virtue of his social function in the industrial process. How futile, then, to endeavor to describe the employer's obligation in terms of mere equivalence and contractual justice! It is governed by distributive justice also.

Some difficulties occur in connection with the wage rights of adult males whose ability is below the average, and female and child workers. Since the dignity and the needs of personality constitute the moral basis of the claim to a decent livelihood, it would seem that the inefficient worker who does his best is entitled to a living wage. Undoubtedly he has such a right if it can be effectuated in the existing industrial organization. As already noted, the right of the workman of average ability to a living wage does not become actual until he finds an employer who would rather give him that much pay than do without his services. Since the obligation of paying a living wage is not an obligation to employ any particular worker, an employer may refrain from hiring or may discharge any laborer who does not add to the product sufficient value to provide his wages. For the employer cannot reasonably be expected to employ any one at a positive loss to himself. Whence it follows that he may pay less than living wages to any worker

whose services he would rather dispense with than remunerate at that figure.[1]

Women and young persons who regularly perform a full day's work, have a right to compensation adequate to a decent livelihood. In the case of minors, this means living at home, since this is the normal condition of all, and the actual condition of almost all. Adult females have a right to a wage sufficient to maintain them away from home, because a considerable proportion of them live in this condition. If employers were morally free to pay home-dwelling women less than those adrift, they would endeavor to employ only the former. This would create a very undesirable social situation. The number of women away from home who are forced to earn their own living is sufficiently large (20 to 25 per cent of the whole) to make it reasonable that for their sakes the wage of all working women should be determined by the cost of living outside the parental precincts. This is one of the social obligations that reasonably falls upon the employer on account of his function in the present industrial system. In all the American minimum wage laws, the standard of payment is determined by the cost of living away from home. Besides, the difference between the living costs of women in the two conditions is not nearly as great as is commonly assumed. Probably it never amounts to a dollar a week.

The Family Living Wage

Up to the present we have been considering the right of the laborer to a wage adequate to a decent livelihood for himself as an individual. In the case of an adult male,

[1] While the statement in the text applies to *all* laborers of less than average ability, it obviously is applicable only to individual cases among those who are up to the average. These are the workers at the "margin" of the labor force in an establishment, those who could be discharged without causing the industry to shut down. If an employer would rather go out of business than pay a living wage to all his necessary laborers of average ability, he is morally free to do so; but he may not employ them at less than living wages in order to obtain interest on his capital.

however, this is not sufficient for normal life, nor for the reasonable development of personality. The great majority of men cannot live well-balanced lives, cannot attain a reasonable degree of self-development outside the married state. Therefore, family life is among the essential needs of a normal and reasonable existence. It is not, indeed, so vitally necessary as the primary requisites of individual life, such as food, clothing, and shelter, but it is second only to these. Outside the family, man cannot, as a rule, command that degree of contentment, moral strength, and moral safety which are necessary for reasonable and efficient living. It is unnecessary to labor this point further, as very few would assert that the average man can live a normal and complete human life without marriage.

Now, the support of the family falls properly upon the husband and father, not upon the wife and mother. The obligation of the father to provide a livelihood for the wife and young children is quite as definite as his obligation to maintain himself. If he has not the means to discharge this obligation he is not justified in getting married. Yet, as we have just seen, marriage is essential to normal life for the great majority of men. Therefore, the material requisites of normal life for the average adult male include provision for his family. In other words, his decent livelihood means a family livelihood. Consequently, he has a right to obtain such a livelihood on reasonable terms from the bounty of the earth. In the case of the wage earner, this right can be effectuated only through wages; therefore, the adult male laborer has a right to a family living wage. If he does not get this measure of remuneration his personal dignity is violated, and he is deprived of access to the goods of the earth quite as certainly as when his wage is inadequate to personal maintenance. The difference between family needs and personal needs is a difference only of degree. The satisfaction of both is indispensable to his reasonable life.

Just as the woman worker who lives with her parents

has a right to a wage sufficient to maintain her away from home, so the unmarried adult male has a right to a family living wage. If only married men get the latter wage they will be discriminated against in the matter of employment. To prevent this obviously undesirable condition, it is necessary that a family living wage be recognized as the right of all adult male workers. No other arrangement is reasonable in our present industrial system.[1] In a competitive régime the standard wage for both the married and the unmarried men is necessarily the same. It will be determined by the living costs of either the one class or the other. At present the wage of the unskilled is unfortunately adjusted to the subsistence cost of the man who is not married. Since two prevailing scales of wages are impossible, the remuneration of the unmarried must in the interests of justice to the married be raised to the living costs of the latter. Moreover, the unmarried laborer needs more than an individual wage in order to save sufficient money to enter upon the responsibilities of matrimony. He must have the opportunity to save.

Only two objections of any importance can be brought against the male laborer's claim to a family living wage. The first is that just wages are to be measured by the value of the labor performed, and not by such an extrinsic consideration as the needs of a family. It has already been answered in this and the preceding chapters. Not the economic but the ethical value of the service rendered, is the proper determinant of justice in the matter of wages; and this ethical value is always the equivalent of at least a decent livelihood for the laborer and his family. According to the second objection, the members of the laborer's family have no claim upon the employer, since they do not participate in the work that is remunerated. This contention is valid, but it is also irrelevant. The claim of the laborer's family to sustenance is directly upon him, not upon his employer; but the laborer has a just claim upon

[1] See, however, the discussion under the next sub-heading.

the employer for the means of meeting the claims of his family. His right to this amount of remuneration is directly based neither upon the needs nor the rights of his family, but upon his own needs, upon the fact that family conditions are indispensable to his own normal life. If the wife and young children were self-supporting, or were maintained by the State, the wage rights of the father would not include provision for the family. Since, however, family life involves support by the father, the laborer's right to such a life necessarily includes the right to a wage adequate to family support.

Family Allowances

Within the last ten years a new method of establishing, or at least approximating, the family living wage has been introduced in France, Belgium, Holland, Germany, and, to a smaller extent, in several other European countries. In France it received the name, "sur-salaire," while its common designation in English is the "Family Allowance System." It is a voluntary arrangement formed by a group of employers and employees, according to which married male wage earners are remunerated in proportion to the number of their children. At the birth of each child, the wage of the father is increased and the total amount of extra compensation is determined by the number of children who are below the fixed maximum age. In order to make it a matter of indifference to the employer whether he has many or few married men on his pay roll, the allowances are derived from a general fund. To this fund each employer contributes in proportion either to the amount of his wage payments or the number of his employees. Hence, the individual employer is no more disturbed when new births occur in the families of his own employees than when they take place in other families.

Three arguments are advanced for this method, as against the method of paying every adult male a wage adequate to the support of the "standard family," that is, husband, wife

and three children under fourteen. The first is based upon equity: the man who has more than three small children is not adequately compensated by the "standard" rate, while the man with less than three receives more than is necessary. Undoubtedly, this contention is in accord with the ethical principle of needs and of proportional justice. It is actual, concrete needs, not hypothetical or average needs that are really felt and that require satisfaction. The second argument is mainly valuable as a confirmation of the first. It points out that the "standard" family is not typical. Professor Paul H. Douglas maintains that in France, Belgium, Great Britain and the United States only a small minority of families exhibit three children under fourteen years of age.[1] In 1920, the entire population of the United States was less than 106,000,000; but a uniform family wage to each of the 28,200,000 gainfully employed males would have provided for 141,000,000 persons.

According to the third argument, the national income of a country might be adequate to a universal family living wage under the Allowance System but inadequate to the uniform rate. Professor Douglas contends that this is the case even in the United States.[2] Whether or not we agree with the latter contention, we have to admit that the Allowance System offers the only solid hope of establishing a family living wage in Europe.

One of the principal advantages of the Allowance System is that it can be established by voluntary action, without either coercion or help from the state. This fact is of decisive importance in our own country, since minimum wage legislation has been declared unconstitutional. To be sure, the arrangement might well be established by law in those countries which have requisite legislative and economic freedom; that is, all countries other than the United States. At any rate, it should be less difficult for employers and employees to put this plan into operation than it has

[1] "Wages and the Family," ch. iii.
[2] Idem, ch. ii.

been for them to agree upon any other measure for the benefit of the worker.

An important question in the operation of the system relates to the basic wage upon which the extra compensation is built. Should it suffice for the support of a man and wife, or be merely adequate to that of the adult male? In the former case single men would obtain more than enough for their present maintenance. In the latter case, they would begin to share in the allowance fund as soon as they married. The wife, as well as each child, would be the occasion of an increase in the husband's wages. If this method included provision for saving in the single man's wages, it would probably be more conducive to matrimony than the other, and would call for a smaller total outlay for wages. On the other hand, it would involve considerably greater administrative costs and friction.

In view of the very large number of women wage earners who have to support dependents, they ought to be included in any family allowance system. The objections drawn from the integrity of the family, the normal place of the mother, and the responsibility of the father, seem insufficient to outweigh the actual human needs of so many thousands of working women and their children. At any rate, it is not probable that the number of husbands who desert or die would be materially increased on account of this arrangement.[1]

Other Arguments in Favor of a Living Wage

Thus far, the argument has been based upon individual natural rights. If we give up the doctrine of natural rights, and assume that all the rights of the individual come to him from the State, we must admit that the State has the power to withhold and withdraw all rights from any and all persons. Its grant of rights will be determined solely by considerations of social utility. In the concrete this

[1] Waggaman, "Family Allowances in Foreign Countries," Bulletin 401, U. S. Bureau of Labor Statistics.

means that some citizens may be regarded as essentially inferior to other citizens, that some may properly be treated as mere instruments to the convenience of others. Or it means that all citizens may be completely subordinated to the aggrandizement of an abstract entity, called the State. Neither of these positions is logically defensible. No group of persons has less intrinsic worth than another; and the State has no rational significance apart from its members.

Nevertheless, a valid argument for the living wage can be set up on grounds of social welfare. A careful and comprehensive examination of the evil consequences to society and the State from the underpayment of any group of laborers, would show that a universal living wage is the only sound social policy. Among competent social students, this proposition has become a commonplace. It will not be denied by any intelligent person who considers seriously the influence of low wages in diminishing the efficiency, physical, mental, and moral, of the workers; in increasing the volume of crime, and the social cost of meeting it; in the immense social outlay for the relief of unnecessary poverty, sickness, and other forms of distress; and in the formation of a large and discontented proletariat.[1]

The living wage doctrine also receives strong support from various kinds of authority. Of these the most important and best known is the famous Encyclical, "On the Condition of Labor," May 15, 1891, by Pope Leo XIII. "Let it then be granted that workman and employer should, as a rule, make free agreements, and in particular should agree freely as to wages; nevertheless, there is a dictate of natural justice more imperious and ancient than any bargain between man and man; namely, that the remuneration should be sufficient to maintain the wage earner in reasonable and frugal comfort." Although the Pope refrained from specifying whether the living wage that he had in mind was one adequate merely to an individual livelihood, or sufficient

[1] One of the best statements of the evil social result of low wages will be found in Webb's "Industrial Democracy," vol. II, pp. 749-766.

to support a family, other passages in the Encyclical leave no room for doubt that he regarded the latter as the normal and equitable measure of remuneration. Within a dozen lines of the sentence quoted above, he made this statement: "If the workman's wages be sufficient to maintain himself, his wife, and his children in reasonable comfort, he will not find it difficult, if he be a sensible man, to practice thrift; and he will not fail, by cutting down expenses, to put by some little savings and thus secure a small income."

All lesser Catholic authorities hold that the adult male laborer has some kind of moral claim to a family living wage. In all probability the majority of them regard this claim as one of strict justice, while the minority would put it under the head of legal justice, or natural equity, or charity. The differences between their views are not as important as the agreements; for all the Catholic writers maintain that the worker's claim is strictly moral in its nature, and that the corresponding obligation upon the employer is likewise of a moral character.

During and since the Great War the living wage principle obtained a considerable increase both of recognition and of application. The National War Labor Board formally adopted it as a rule of procedure in adjusting and preventing wage disputes. In the Pastoral Letter of the Catholic Hierarchy of the United States (1920) we read: "The right of labor to a living wage, authoritatively and eloquently reasserted more than a quarter of a century ago by Pope Leo XIII, is happily no longer denied by any considerable number of persons. What is principally needed now is that its content should be adequately defined, and that it should be made universal in practice, through whatever means will be at once legitimate and effective. In particular, it is to be kept in mind that a living wage includes not merely decent maintenance for the present, but also a reasonable provision for such future needs as sickness, invalidity and old age." In 1919 the Federal Council of the Churches of Christ in America, representing the

principal Protestant denominations, declared that, "the living wage should be the first charge upon industry, before dividends are considered."

Indeed, it would be difficult to find any important person who to-day would have the temerity to deny that the laborer is entitled to a wage sufficient for decent family life. Even employers rarely give public utterance to the assertion that the wage contract is merely an economic transaction, or that the living wage principle is without rational and ethical force. Although a majority of the members of the Supreme Court declared the legal minimum wage unconstitutional, they said: "The ethical right of every worker, man or woman, to a living wage may be conceded."

The money measure of a living wage in the United States is susceptible of definition sufficiently precise for all practical purposes. Between 1905 and 1923, no less than thirty-seven studies and estimates were made in twenty different cities and industrial regions, from Boston to San Francisco. Despite variations in details and viewpoints, they exhibit a considerable measure of agreement. In any large city, the minimum cost of decent living (January, 1927) for a single woman worker is between fifteen and eighteen dollars a week; for a single male worker, between eight hundred and eight hundred and fifty dollars a year, and for the "standard" family of five, between fifteen hundred and seventeen hundred dollars per annum.[1] A very large proportion of female and of male wage earners do not receive, respectively, fifteen dollars a week and fifteen hundred dollars a year.

[1] Cf. Douglas, op. cit., chs., i and xii.

CHAPTER XXIV

THE PROBLEM OF COMPLETE WAGE JUSTICE

A LIVING wage for all workers is merely the *minimum* measure of just remuneration. It is not in every case complete justice. Possibly it is not the full measure of justice in any case. How much more than a living wage is due to any or all of the various classes of laborers? How much more may any group of workers demand without exposing itself to the sin of extortion? By what principles shall these questions be answered?

The problem of complete wage justice can be conveniently and logically considered in four distinct relations, as regards: the respective claims of the different classes of laborers to a given amount of money available for wage payments; the claims of the whole body of laborers, or any group thereof, to higher wages at the expense of profits; at the expense of interest; and at the expense of the consumer.

Comparative Claims of Different Labor Groups

In the division of a common wage fund, no section of the workers is entitled to anything in excess of living wages until all the other sections have received that amount of remuneration. The need of a decent livelihood constitutes a more urgent claim than any other that can be brought forward. Neither efforts, nor sacrifices, nor productivity, nor scarcity can justify the payment of more than living wages to any group, so long as any other group in the industry remains below that level; for the extra compensation will supply the non-essential needs of the former by

denying the essential needs of the latter. The two groups of men will be treated unequally in respect of those qualities in which they are equal; namely, their personal dignity and their claims to the minimum requisites of reasonable life and self-development. This is a violation of justice.

Let us suppose that all the workers among whom a given amount of compensation is to be distributed, have already received living wages, and that there remains a considerable surplus. On what principles should the surplus be apportioned? For answer we turn to the canons of distribution, as explained in chapter xvi. When the elementary needs of life and development have been supplied, the next consideration might seem to be the higher or non-essential needs and capacities. Proportional justice would seem to suggest that the surplus ought to be distributed in accordance with the varying needs and capacities of men to develop their faculties beyond the minimum reasonable degree. As we have already pointed out, this would undoubtedly be the proper rule if it were susceptible of anything like accurate application, and if the sum to be distributed were not produced by and dependent upon those who were to participate in the distribution. However, we know that the first condition is impracticable, while the second is nonexistent. Inasmuch as the sharers in the distribution have produced and constantly determine the amount to be apportioned, the distributive process must disregard nonessential needs, and govern itself by other canons of justice.

The most urgent of these is the canon of efforts and sacrifices. Superior effort, as measured by unusual will-exertion, is a fundamental rule of justice, and a valid title to exceptional reward. Men who strive harder than the majority of their fellows are ethically deserving of extra compensation. At least, this is the pure theory of the matter. In practice, the situation is complicated by the fact that unusual effort cannot always be distinguished, and by the further fact that some exceptional efforts do

not fructify in correspondingly useful results. Among men engaged at the same kind of work, superior effort is to a great extent discernible in the unusually large product. As such it actually receives an extra reward in accordance with the canon of productivity. When men are employed at different tasks, unusual efforts cannot generally be distinguished and compensated. Hence the general principle is that superior efforts put forth in the production of utilities, entitle men to something more than living wages, but that the enforcement of this principle is considerably hindered by the difficulty of discerning such efforts.

The unusual sacrifices that deserve extra compensation are connected with the costs of industrial functions and the disagreeable character of occupations. Under the first head are included the expense of industrial training and the debilitating effects of the work. Not only justice to the worker but a farsighted view of social welfare dictate that all unusual costs of preparation for an industrial craft or profession should be repaid in the form of unusual compensation. This means something more than a living wage. For the same reasons the unusual hazards and disability resulting from industrial accidents and diseases should be provided for by higher remuneration. In the absence of such provision, these costs will have to be borne by parents, by society in the form of charitable relief, or by the worker himself through unnecessary suffering and incapacity. The industry that does not provide for all these costs is a social parasite, the workers in it are deprived of just compensation for their unusual sacrifices, and society suffers a considerable loss through industrial friction and diminished productive efficiency. In so far, however, as any of the foregoing costs are borne by society, as in the matter of industrial education, or by the employer, as by accident compensation or sickness insurance, they do not demand provision in the form of extra wages.

Other unusual sacrifices that entitle the worker to more than living wages, are inherent in disagreeable or despised

occupations. The scavenger and the bootblack ought to get more than the performers of most other unskilled tasks. On the principles of comparative individual desert, they should receive larger remuneration than many persons who are engaged upon skilled but relatively pleasant kinds of work. For if they were given the choice of expending the time and money required to fit them for the latter tasks, or of taking up immediately their present disagreeable labor, they would select the more pleasant occupations, for the same or even a smaller remuneration. And the majority of those who are now in the more skilled occupations would make the same choice. Hence the sacrifices inherent in disagreeable kinds of work are in many cases as great as or greater than the sacrifices of preparation for the more pleasant tasks; consequently the doers of the former are relatively underpaid. If all wages were regulated by some supreme authority according to the principles of complete justice, the workers in disagreeable occupations would receive something more than living wages. Nor would this determination of rewards be in any way contrary to social welfare or the principle of maximum net results; for the superior attractiveness of the other kinds of work would draw a sufficient supply of labor to offset the advantage conferred by higher wages upon the disagreeable occupations. The main reason why the latter kind of labor is so poorly paid now is the fact that it is very plentiful, a condition which is in turn due to the unequal division of industrial opportunity. Were the opportunities of technical education and of entrance to the higher crafts and professions more widely diffused, the laborers offering themselves for the disagreeable tasks would be scarcer and their remuneration correspondingly larger. This would be not only more conformable to the abstract principles of justice, but more conducive to social efficiency.

To sum up the discussion concerning the canon of efforts and sacrifices: Laborers have a just claim to more than living wages whenever they put forth unusual efforts, and

whenever their occupations involve unusual sacrifices, either through costs of preparation, exceptional hazards, or inherent disagreeableness. The precise amount of extra compensation due under any of these heads can be determined, as a rule, only approximately.

The next canon to be considered as a reason for more than living wages is that of productivity. This offers little difficulty; for the unusual product is always visible among men who are performing the same kind of work, and the employer is always willing to give the producer of it extra compensation. While superior productive power which is based solely upon superior native ability has only presumptive validity as a canon of justice, that is ethically sufficient in our workaday world. Moreover, the canon of human welfare demands that superior productivity receive superior rewards, so long as these are necessary to evoke the maximum net product.

The canon of scarcity has exactly the same value as that of productivity. Society and the employer are well advised and are justified in giving extra compensation to scarce forms of labor when the product is regarded as worth the corresponding price. This remains true even when the scarcity is due to restricted opportunity of preparation, rather than to sacrifices of any sort. In that case the higher rewards are as fully justified as the superior remuneration of that superior productivity which is based upon exceptional native endowments. The amount of extra compensation which may properly be given on account of scarcity is determined either by the degree of sacrifice involved or by the ordinary operation of competition. When men are scarce because they have made exceptional sacrifices of preparation, they ought to be rewarded in full proportion to these sacrifices. When they are scarce merely because of exceptional opportunities, their extra compensation should not exceed the amount that comes to them through the interplay of supply and demand.

The canon of human welfare has already received implicit

application. When due regard is given to efforts, sacrifices, productivity and scarcity, the demands of human welfare, both in its individual and its social aspects, are sufficiently safeguarded.

In the foregoing pages the attempt has been made to describe the proportions in which a given wage fund ought to be distributed among the various classes of laborers who have claims upon the fund. The first requisite of justice is that all should receive living wages. It applies to all workers of average ability, even to those who have no special qualifications of any sort. When this general claim has been universally satisfied, those groups of workers who are in any wise special, whose qualifications for any reason differentiate them from and place them above the average, will have a right to something more than living wages. They will have the first claim upon the surplus that remains in the wage fund. Their claims will be based upon the various canons of distribution explained in detail above; and the proper amounts of extra remuneration will be determined by the extent to which their special qualifications differentiate them from the average and unspecialized workers. If the total available wage fund is merely sufficient to provide universal living wages and the extra compensation due to the specialized groups, no section of the labor force will be justified in exacting a larger share. Even though the employer should withhold a part of the amount due to some weaker group, a stronger group that is already getting its proper proportion would have no right to demand the unjustly withheld portion. For this belongs neither to the employer nor to the powerful labor group, but to the weaker laborers.

This does not mean that a powerful body of workers who are already receiving their due proportion as compared with other labor groups would not be justified in seeking any increase in remuneration whatever. The increase might come out of profits, or interest, or the consumer, and thus be in no sense detrimental to the rights of the other sections

of laborers. This problem will be considered a little later. At present we confine our attention to the relative claims of different labor groups to a definite wage fund.

Suppose, however, that after all workers have received living wages, and all the exceptional groups have obtained those extra amounts which are due them on account of efforts, sacrifices, productivity and scarcity, there remains a further surplus in the wage fund. In what proportions should it be distributed? It should be equally divided among all the laborers. The proportional justice which has been already established can be maintained only by raising the present rates of payment equally in all cases. All the average or unspecialized groups would get something more than living wages, and all the other groups would have their extra compensation augmented by the same amount.

Of course, the wage-fund hypothesis which underlies the foregoing discussion is not realized in actual life, any more than was the "wage fund" of the classical economists. Better than any other device, however, it enables us to describe and visualize the comparative claims of different groups of laborers who have a right to unequal amounts in excess of living wages.

Wages Versus Profits

Let us suppose that the wage fund is properly apportioned among the different classes of laborers, according to the specified canons of distribution. May not one or all of the labor groups demand an increase in wages on the ground that the employer is retaining for himself an undue share of the product?

As we have seen in the last chapter, the right of the laborers to living wages is superior to the right of the employer or business man to anything in excess of that amount of profits which will insure him against risks, and afford him a decent livelihood in reasonable conformity with his accustomed plane of expenditure. It is also evi-

dent that those laborers who undergo more than average sacrifices have a claim to extra compensation which is quite as valid as the similarly based claim of the employer to more than living profits. In case the business does not provide a sufficient amount to remunerate both classes of sacrifices, the employer may prefer his own to those of his employees, on the same principle that he may prefer his own claim to a decent livelihood. The law of charity permits a man to satisfy himself rather than his neighbor, when the needs in question are of the same degree of urgency or importance. As to those laborers who turn out larger products than the average, or whose ability is unusually scarce, there is no practical difficulty; for the employer will find it profitable to give them the corresponding extra compensation. The precise question before us, then, is the claims of the laborers upon profits for remuneration above universal living wages and above the extra compensation due on account of unusual efforts, sacrifices, productivity and scarcity. Let us call the wage that merely includes all these factors "the equitable minimum."

In competitive conditions this question becomes practical only with reference to the exceptionally efficient and productive business men. The great majority have no surplus available for wage payments in excess of the "equitable minimum." Indeed, the majority do not now pay the full "equitable minimum"; yet their profits do not provide them more than a decent livelihood. The relatively small number of establishments that show such a surplus as we are considering have been brought to that condition of prosperity by the exceptional ability of their directors, rather than by the unusual productivity of their employees. In so far as this exceptional directive ability is due to unusual efforts and sacrifices, the surplus returns which it produces may be claimed with justice by the employer. In so far as the surplus is the outcome of exceptional native endowments, it may still be justly retained by him in accordance with the canon of productivity. In other words, when

the various groups of workers are already receiving the "equitable minimum," they have no strict right to any additional compensation out of those rare surplus profits which come into existence in conditions of competition.

This conclusion is confirmed by reference to the canon of human welfare. If exceptionally able business men were not permitted to retain the surplus in question they would not exert themselves sufficiently to produce it; labor would gain nothing; and the community would be deprived of the larger product.

Wages Versus Interest

Turning now to the claims of the laborers as against the capitalists, or interest receivers, we perceive that the right to any interest at all is morally inferior to the right of all the workers to the "equitable minimum." As heretofore pointed out more than once, the former right is only presumptive and hypothetical, and interest is ordinarily utilized to meet less important needs than those supplied by wages. Through his labor power the interest receiver can supply all those fundamental needs which are satisfied by wages in the case of the laborer. Therefore, it seems clear that the capitalist has no right to interest until all laborers have received the "equitable minimum." It must be borne in mind, however, that any claim of the laborer against interest falls upon the owners of the productive capital in a business, upon the undertaker-capitalist, not upon the loan-capitalist.

When all the laborers in an industry are receiving the "equitable minimum," have they a right to exact anything more at the expense of interest? By interest we mean, of course, the prevailing or competitive rate that is received on productive capital—six or seven per cent. Any return to the owners of capital in excess of this rate is properly called profits rather than interest, and its relation to the claims of the laborers has received consideration in the immediately preceding section of this chapter. The ques-

tion, then, is whether the laborers who are already getting the "equitable minimum" would act justly in demanding and using their economic power to obtain a part or all of the pure interest. No conclusive reason is available to justify a negative answer. The title of the capitalist is only presumptive and hypothetical, not certain and unconditional. It is, indeed, sufficient to justify him in retaining interest that comes to him through the ordinary processes of competition and bargaining; but it is not of such definite and compelling moral efficacy as to render the laborers guilty of injustice when they employ their economic power to divert further interest from the coffers of the capitalist to their own pockets. The interest-share of the product is morally debatable as to its ownership. It is a sort of no-man's property (like the rent of land antecedently to its legal assignment through the institution of private land-ownership) which properly goes to the first occupant as determined by the processes of bargaining between employers and employees. If the capitalists get the interest-share through these processes it rightfully belongs to them; if the laborers who are already in possession of the "equitable minimum" develop sufficient economic strength to get this debatable share they may justly retain it as their own.

The foregoing conclusion may seem to be a very unsatisfactory solution of a problem of justice. However, it is the only one that is practically defensible. If the capitalist's claim to interest were as definite and certain as the laborer's right to a living wage, or as the creditor's right to the money that he has loaned, the solution would be very simple: the laborers that we are discussing would have no right to strive for any of the interest. But the claim of the capitalists is not of this clear and conclusive nature. It is sufficient when combined with actual possession; it is not sufficient when the question is of future possession. The title of first occupancy as regards land is not valid until the land has been actually occupied; and similarly the claim of the capitalist to interest is not valid until the interest

has been received. If the economic forces which determine actual possession operate in such a way as to divert the interest-share to the laborers, they, not the capitalists, will have the valid moral title, just as Brown with his automobile rather than Jones with his spavined nag will enjoy the valid title of first occupancy to a piece of ownerless land which both have coveted.

This conclusion is confirmed by reference to the rationally and morally impossible situation that would follow from its rejection. If we deny to the laborers the moral freedom to strive for higher wages at the expense of the capitalist, we must also forbid them to follow this course at the expense of the consumer. For the great majority of consumers would stand to lose advantages to which they have as good a moral claim as the capitalists have to interest. Practically this would mean that the laborers have no right to seek remuneration in excess of the "equitable minimum"; for such excess must in substantially all cases come from either the consumer or the capitalist. On what principle can we defend the proposition that the great majority of laborers are forever restrained by the moral law from seeking more than bare living wages, and the specialized minority from demanding more than that extra compensation which corresponds to unusual efforts, sacrifices, productivity, and scarcity? Who has authorized us to shut against these classes the doors of a more liberal standard of living, and a more ample measure of self-development?

Wages Versus Prices

The right of the laborers to the "equitable minimum" implies obviously the right to impose adequate prices upon the consumers of the laborer's products. This is the ultimate source of the rewards of all the agents of production. Suppose that the laborers are already receiving the "equitable minimum." Are they justified in seeking any more at the cost of the consumer? If all the con-

sumers were also laborers the answer would be simple, at least in principle: rises in wages and prices ought to be so adjusted as to bring equal gains to all individuals. The "equitable minimum" is adjusted to the varying moral claims of the different classes of laborers; therefore, any rise in remuneration must be equally distributed in order to leave this adjustment undisturbed. It is a fact, however, that a large part of the consumers are not laborers; consequently they cannot look to rises in wages as an offset to their losses through rises in prices. Can they be justly required to undergo this inconvenience for laborers who are already getting the "equitable minimum"?

Let us consider first the case of higher wages versus lower prices. A few progressive and efficient manufacturers of shoes find themselves receiving large surplus profits which are likely to continue. So far as the presumptions of strict justice are concerned, they may, owing to their superior productivity, retain these profits for themselves. Seized, however, with a feeling of benevolence, or a scruple of conscience, they determine to divide future profits of this class among either the laborers or the consumers. If they reduce prices the laborers will gain something as users of shoes, but the other wearers of shoes will also be beneficiaries. If the surplus profits are all diverted to the laborers in the form of higher wages the other consumers of shoes will gain nothing. Now there does not seem to be any compelling reason, any certain moral basis, for requiring the shoe manufacturers to take one course rather than the other. Either will be correct morally. Possibly the most perfect plan would be to effect a compromise by lowering prices somewhat and giving some rise in wages; but there is no strict obligation to follow this course. To be sure, since the manufacturers have a right to retain the surplus profits, they have also a right to distribute them as they prefer. Let us get rid of this complication by assuming that the manufacturers are indifferent concerning the disposition of the surplus, leaving

the matter to be determined by the comparative economic strength of laborers and consumers. In such a situation it is still clear that either of the two classes would be justified in striving to secure any or all of the surplus. No definite moral principle can be adduced to the contrary. To put the case in more general terms: there exists no sufficient reason for maintaining that the gains of cheaper production should go to the consumer rather than to the laborer, or to the laborer rather than to the consumer, if the laborer is already receiving the "equitable minimum."

Turning now to the question of higher wages at the cost of higher prices, we note that this would result in at least temporary hardship to four classes of persons: the weaker groups of wage earners; all self-employing persons, such as farmers, merchants, and manufacturers; the professional classes; and persons whose principal income was derived from rent or interest. All these groups would have to pay more for the necessaries, comforts and luxuries of living, without being immediately able to raise their own incomes correspondingly.

Nevertheless, the first three classes could in the course of time force an increase in their revenues sufficient to offset at least the more serious inconveniences of the increase in prices. So far as the wage earners are concerned, it is understood that all these would have a right to whatever advance in the money measure of the "equitable minimum" was necessary to neutralize the higher cost of living resulting from the success of the more powerful groups in obtaining higher wages. The right of a group to the "equitable minimum" of remuneration is obviously superior to the right of another group to more than that amount. And a supreme wage-determining authority would act on this principle. It cannot be shown, however, that in the absence of any such authority empowered to protect the "equitable minimum" of the weaker laborers, the more powerful groups are obliged to refrain from demanding extra remuneration. The reason of this we

shall see presently. In the meantime we call attention to the fact that, owing to the greater economic opportunity resulting from the universal prevalence of the "equitable minimum" and of industrial education, even the weaker groups of wage earners would be able to obtain some increases in wages. In the long run the more powerful groups would enjoy only those advantages which arise out of superior productivity and exceptional scarcity. These two factors could not in any system of industry be prevented from conferring advantages upon their possessors.

As regards the self-employing classes, the remedy for any undue hardship suffered through the higher prices of commodities would be found in a discontinuance of their present functions until a corresponding rise had occurred in the prices of their own products. They could do this partly by organization, and partly by entering into competition with the wage earners. Substantially the same recourse would be open to the professional classes. In due course of time, therefore, the remuneration of all workers, whether employees or self-employed or professional, would tend to be in harmony with the canons of efforts, sacrifices, productivity, scarcity, and human welfare.

Since the level of rent is fixed by forces outside the control of laborers, employers, or landowners, the receivers thereof would be unable to offset its decreased purchasing power by increasing its amount. However, this situation would not be inherently unjust, nor even inequitable. Like interest, rent is a "workless" income, and has only a presumptive and hypothetical justification. Therefore, the moral claim of the rent receiver to be protected against a decrease in the purchasing power of his income is inferior to the moral claim of the laborer to use his economic power for the purpose of improving his condition beyond the limits of welfare fixed by the "equitable minimum." What is true of the rent receiver in this respect applies likewise to the case of the capitalist. As we saw a few pages back, the wage earners are morally free to take this

course at the expense of interest. Evidently they may do the same thing when the consequence is merely a diminution in its purchasing power. To be sure, if capital owners should regard their sacrifices in saving as not sufficiently rewarded, owing either to the low rate or the low purchasing power of interest, they would be free to diminish or discontinue saving until the reduced supply of capital had brought about a rise in the rate of interest. Should they refrain from this course they would show that they were satisfied with the existing situation. Hence they would suffer no wrong at the hands of the laborers who forced up wages at the expense of prices.

Two objections come readily to mind against the foregoing paragraphs. The more skilled labor groups might organize themselves into a monopoly and raise their wages so high as to inflict the same degree of extortion upon consumers as that accomplished by a monopoly of capitalists. This is, indeed, possible. The remedy would be intervention by the State to fix maximum wages. Just where the maximum limit ought to be placed is a problem that could be solved only through study of the circumstances of the case, on the basis of the canons of efforts, sacrifices, productivity, scarcity, and human welfare. The second objection calls attention to the fact that we have already declared that the more powerful labor groups would not be justified in exacting more than the "equitable minimum" out of a common wage fund, so long as any weaker group was below that level; yet this is virtually what would happen when the former caused prices to rise to such an extent that the weaker workers would be forced below the "equitable minimum" through the increased cost of living. While this contingency is likewise possible, it is not a sufficient reason for preventing any group of laborers from raising their remuneration at the expense of prices. Not every rise in prices would affect the expenditures of the weaker sections of the wage earners. In some cases the burden would be substantially all borne by the better paid

workers and the self-employing, professional, and propertied classes. When it did fall to any extent upon the weaker laborers, causing their real wages to fall below the "equitable minimum," it could be removed within a reasonable time by organization or by legislation. Even if these measures were found ineffective, if some of the weaker groups of workers should suffer through the establishment of the higher prices, this arrangement would be preferable on the whole to one in which no class of laborers was permitted to raise its remuneration above the "equitable minimum" at the expense of prices. A restriction of this sort, whether by the moral law or by civil regulation, would tend to make wage labor a status with no hope of pecuniary progress.

It is true that a universal and indefinite increase of wages at the expense of prices might at length leave the great majority of the laborers no better off than they were when they had merely the "equitable minimum." Such would certainly be the result if the national product were only sufficient to provide the "equitable minimum" for all workers, and that volume of incomes for the other agents of production which was required to evoke from them a fair degree of productive efficiency. In that case the higher wages would be an illusion. The gain in the amount of money would be offset by the loss in its purchasing power. Even so, this condition would be superior to a régime in which the laborers were prevented from making any effort to raise their wages above a fixed maximum.

Concluding Remarks

All the principles and conclusions defended in this chapter have been stated with reference to the present distributive system, with its free competition and its lack of legal regulation. Were all incomes and rewards fixed by some supreme authority, the same canons of justice would be applicable, and the application would have to be made

in substantially the same way, if the authority were desirous of establishing the greatest possible measure of distributive justice. The main exception to this statement would occur in relation to the problem of raising wages above the "equitable minimum" at the expense of prices. In making any such increase, the wage-fixing authority would be obliged to take into account the effects upon the other classes of laborers, and upon all the non-wage-earning classes. Substantially the same difficulties would confront the government in a collectivist organization of industry. The effect that a rise in the remuneration of any class would produce, through a rise in the prices of commodities, upon the purchasing power of the incomes of other classes, would have to be considered and as nearly as possible ascertained. This would be no simple task. Simple or not, it would have to be faced; and the guiding ethical principles would always remain efforts, sacrifices, productivity, scarcity, and human welfare.

The greater part of the discussion carried on in this chapter has a highly theoretical aspect. From the nature of the subject matter this was inevitable. Nevertheless the principles that have been enunciated and applied seem to be incontestable. In so far as they are enforceable in actual life, they seem capable of bringing about a wider measure of justice than any other ethical rules that are available.

Possibly the applications and conclusions have been laid down with too much definiteness and dogmatism, and the whole matter has been made too simple. On the other hand, neither honesty nor expediency is furthered by an attitude of intellectual helplessness, academic hypermodesty, or practical agnosticism. If there exist moral rules and rational principles applicable to the problem of wage justice, it is our duty to state and apply them as fully as we can. Obviously we shall make mistakes in the process; but until the attempt is made, and a certain (and

very large) number of mistakes are made, there will be no progress. We have no right to expect that ready-made applications of the principles will drop from Heaven.

For a long time to come, however, many of the questions discussed in this chapter will be devoid of large practical interest. The problem immediately confronting society is that of raising the remuneration and strengthening generally the economic position of those laborers who are now below the level, not merely of the "equitable minimum," but of a decent livelihood. This problem will be the subject of the next chapter.

CHAPTER XXV

METHODS OF INCREASING WAGES

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

The Legal Minimum Wage

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Constitutional Aspect

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Political Aspect

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

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

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

The Economic Aspect

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

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

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

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

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

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

Labor Unions

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

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

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

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

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

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

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

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

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

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

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

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

Organization Versus Legislation

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

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

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

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

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

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

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

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

Social Insurance

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

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

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

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

Toward Industrial Democracy

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

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

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

It is obvious that neither the injury to the workers nor

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REFERENCES ON SECTION IV

ADAMS and SUMNER: Labor Problems. Macmillan; 1905.
COMMONS and ANDREWS: Principles of Labour Legislation. Harpers; 1916.
O'GRADY: A Legal Minimum Wage. Washington; 1915.
BRODA: La Fixation Légale des Salaries. Paris; 1912.
TAWNEY: Minimum Rates in the Chain-Making Industry. London; 1914.
Minimum Rates in the Tailoring Industry. London; 1915.
TURMAN: Le Catholicisme Social. Paris; 1900.
POTTIER: De Jure et Justitia. Liege; 1900.
POLIER: L' Idée du Juste Salaire. Paris; 1903.
Also the works on coöperation cited in connection with Section II, and those of Hobson, Carver and Streightoff.
RYAN and HUSSLEIN: The Church and Labor. Macmillan; 1920.
RYAN and MILLAR: The State and the Church. Macmillan; 1922.
RYAN: Social Reconstruction. Macmillan, 1920.
FRIDAY: Profits, Wages and Prices. New York, 1920.
BUREAU OF APPLIED ECONOMICS: Standards of Living. Washington; 1920.
DOUGLAS: Wages and the Family. Chicago; 1925.
VIBART: Family Allowances in Practice. London; 1926.
CLARK: Minimum Wage Laws of the United States. Washington; 1921.
The Supreme Court and Minimum Wage Legislation. Comment by the Legal Profession on the District of Columbia case. New York; 1925.
BROOKINGS: Industrial Ownership. Macmillan; 1925.
LAUCK: Political and Industrial Democracy. New York; 1926.

CHAPTER XXVI

SUMMARY AND CONCLUSION

THROUGHOUT this book we have been concerned with a twofold problem: to apply the principles of justice to the workings of the present distributive system, and to point out the modifications of the system that seem to promise a larger measure of actual justice. The mechanism of distribution was described in the introductory chapter as apportioning the national product among the four classes that contribute the necessary factors to the process of production, and the first part of the problem was stated as that of ascertaining the size of the share which ought to go to each of these classes.

The Landowner and Rent

We began this inquiry with the landowner and his share of the product, *i.e.,* rent. We found that private ownership of land has prevailed throughout the world with practical universality ever since men began to till the soil in settled communities. The arguments of Henry George against the justice of the institution are invalid because they do not prove that labor is the only title of property, nor that men's equal rights to the earth are incompatible with private landownership, nor that the so-called social production of land values confers upon the community a right to rent. Private ownership is not only socially preferable to the Socialist and the Single Tax systems of land tenure, but it is, as compared with Socialism certainly, and as compared with the Single Tax probably, among man's natural rights. On the other hand, the land-

owner's right to take rent is no stronger than the capitalist's right to take interest; and in any case it is inferior to the right of the tenant to a decent livelihood, and of the employee to a living wage.

Nevertheless, the present system of land tenure is not perfect. Its principal defects are: the promotion of certain monopolies, as anthracite coal, steel, natural gas, petroleum, water power, and lumber; the diversion of excessive gains to landowners, as indicated by the recent great increases in the value of land, and the very large holdings by individuals and corporations; and the exclusion of large masses of men from the land because the owners will not sell it at its present economic value. The remedies for these evils fall mainly under the heads of ownership and taxation. All mineral, timber, gas, oil, grazing, and water-power lands that are now publicly owned, should remain the property of the states and the nation, and be brought into use through a system of leases to private individuals and corporations. Cities should purchase land, and lease it for long periods to persons who wish to erect business buildings and dwellings. By means of taxation the State might appropriate the future increases of land values, subject to the reimbursement of private owners for resulting decreases in value; and it could transfer the taxes on improvements to land, provided that the process were sufficiently gradual to prevent any substantial decline in land values. In some cases a supertax might with advantage be applied to exceptionally large and valuable holdings and to farms in absentee ownership.

The Capitalist and Interest

The Socialist contention that the laborer has a right to the entire product of industry, and therefore that the capitalist has no right to interest, is invalid unless the former alleged right can be effectuated in a reasonable scheme of distribution; and we know that the contemplated Socialist scheme is impracticable. Nevertheless, the refutation of

the Socialist position does not automatically prove that the capitalist has a right to take interest. Of the titles ordinarily alleged in support of such a right, productivity and service are inconclusive, while abstinence is valid only in the case of those capital owners to whom interest was a necessary inducement for saving. Since it is uncertain whether sufficient capital would be provided without interest, and since the legal suppression of interest is impracticable, the State is justified in permitting the practice of taking interest. But this legal permission does not justify the individual interest-receiver. His main and sufficient justification is to be found in the presumptive title which arises out of possession, in the absence of any adverse claimant with a stronger title.

The only available methods of lessening the burden of interest are a reduction in the rate, and a wider diffusion of capital through coöperative enterprise. Of these the former presents no definite or considerable reasons for hope, either through the rapid increase of capital or the inevitable extension of the industrial function of government. The second proposal contains great possibilities of betterment in the fields of banking, agriculture, stores, and manufacture. Through coöperation the weaker farmers, merchants and consumers can do business and obtain goods at lower costs, and save money for investment with greater facility, while the laborers can slowly but surely become capitalists and interest-receivers, as well as employees and wage-receivers.

The Business Man and Profits

Just remuneration for the active agents of production, whether they be directors of industry or employees, depends fundamentally upon five canons of distribution; namely needs, efforts and sacrifices, productivity, scarcity, and human welfare. In the light of these principles it is evident that business men who use fair methods in competitive conditions, have a right to all the profits that they

can obtain. On the other hand, no business man has a strict right to a minimum living profit, since that would imply an obligation on the part of consumers to support superfluous and inefficient directors of industry. Those who possess a monopoly of their products or commodities have no right to more than the prevailing or competitive rate of interest on their capital, though they have the same right as competitive business men to any surplus gains that may be due to superior efficiency. The principal unfair methods of competition, that is, discriminative underselling, exclusive-selling contracts, and discrimination in transportation, are all unjust.

The remedies for unjust profits are to be found mainly in the action of government. The State should either own and operate all natural monopolies, or so regulate their charges that the owners would obtain only the competitive rate of interest on the actual investment, and only such surplus gains as are clearly due to superior efficiency. It should prevent artificial monopolies from practicing extortion toward either consumers or competitors. Inasmuch as overcapitalization has frequently enabled monopolistic concerns to obtain unjust profits, and always presents a strong temptation in this direction, it should be legally prohibited. A considerable part of the excessive profits already accumulated can be subjected to a better distribution by progressive income, excess profits and inheritance taxes. Finally, the possessors of large fortunes and incomes could help to bring about a more equitable distribution by voluntarily complying with the Christian duty of bestowing their superfluous goods upon needy persons and objects.

The Laborer and Wages

None of the theories of fair wages that have been examined under the heads of "the prevailing rate," "exchange-equivalence," or "productivity" is in full harmony with the principles of justice. The minimum of wage justice can, however, be described with sufficient definiteness and

certainty. The adult male laborer has a right to a wage sufficient to provide himself and family with a decent livelihood, and the adult female has a right to remuneration that will enable her to live decently as a self-supporting individual. At the basis of this right are three ethical principles: all persons are equal in their inherent claims upon the bounty of nature; this general right of access to the earth becomes concretely valid through the expenditure of useful labor; and those persons who are in control of the goods and opportunities of the earth are morally bound to permit access thereto on reasonable terms by all who are willing to work. In the case of the laborer, this right of reasonable access can be effectuated only through a living wage. The obligation of paying this wage falls upon the employer because of his function in the industrial organism. And the laborer's right to a living wage is morally superior to the employer's right to interest on his capital. Laborers who put forth unusual efforts or make unusual sacrifices have a right to a proportionate excess over living wages, and those who are exceptionally productive or exceptionally scarce have a right to the extra compensation that goes to them under the operation of competition. Laborers who are receiving the "equitable minimum" described in the last sentence have a right to still higher wages at the expense of the capitalist and the consumer, if they can secure them through the processes of competition; for the additional amount is an ethically unassigned or ownerless property which may be taken by either laborer, capitalist, or consumer, provided that there is no artificial limitation of supply.

The methods of increasing wages are mainly four: a minimum wage by law, labor unions, profit sharing and ownership. The first has been fairly well approved by experience, and is in no wise contrary to the principles of either ethics, politics, or economics. The second has likewise been vindicated in practice, though it is of only small efficacy in the case of those workers who are receiv-

ing less than living wages. The third and fourth would enable laborers to supplement their wage incomes by profits and interest, and would render our industrial system more stable by giving the workers an influential voice in the conditions of employment, and by laying the foundation of that contentment and conservatism which arise naturally out of the possession of property.

As a matter of convenience, the foregoing paragraphs may be further summarized in the following abridgement: the landowner has a right to all the economic rent, modified by the right of his tenants and employees to a decent livelihood, and by the right of the State to levy taxes which do not substantially lower the value of the land. The capitalist has a right to the prevailing rate of interest, modified by the right of his employees to the "equitable minimum" of wages. The business man in competitive conditions has a right to all the profits that he can obtain, but corporations possessing a monopoly have no right to unusual gains except those due to unusual efficiency. The laborer has a right to living wages, and to as much more as he can get by competition with the other agents of production and with his fellow laborers.

Concluding Observations

No doubt many of those who have taken up this volume with the expectation of finding therein a satisfactory formula of distributive justice, and who have patiently followed the discussion to the end, are disappointed and dissatisfied at the final conclusions. Both the particular applications of the rules of justice and the proposals for reform must have seemed complex and indefinite. They are not nearly so simple and definite as the principles of Socialism or the Single Tax. And yet, there is no escape from these limitations. Neither the principles of industrial justice nor the constitution of our socio-economic system is simple. Therefore, it is impossible to give our ethical conclusions anything like mathematical accuracy.

The only claim that is made for the discussion is that the moral judgments are fairly reasonable, and the proposed remedies fairly efficacious. When both have been realized in practice, the next step in the direction of wider distributive justice will be much clearer than it is to-day.

Although the attainment of greater justice in distribution is the primary and most urgent need of our time, it is not the only one that is of great importance. Neither just distribution, nor increased production, nor both combined, will insure a stable and satisfactory social order without a considerable change in human hearts and ideals. The rich must cease to put their faith in material things, and rise to a simpler and saner plane of living; the middle classes and the poor must give up their envy and snobbish imitation of the false and degrading standards of the opulent classes; and all must learn the elementary lesson that the path to achievements worth while leads through the field of hard and honest labor, not of lucky "deals" or gouging of the neighbor, and that the only life worth living is that in which one's cherished wants are few, simple, and noble. For the adoption and pursuit of these ideals the most necessary requisite is a revival of genuine religion.

INDEX

Absentee ownership: checked by super-tax, 112
Abstinence. as a title to interest, 161-164
Adam Smith: 294, 302
Agriculture: cooperation in, 188-190
Alaska: mineral resources of, 88
Altruism: under Socialism, 144-146; promoted by cooperation, 200
Ambrose, Saint: 271
American Sugar Refining Company: 236, 241, 257
American Tobacco Company: 232, 235, 257
Anthracite coal: a monopoly, 75, 77, 88
Antoine, Charles: 298-301
Antoninus, Saint: 239
Aquinas, Saint Thomas: 63, 154, 160, 179, 269, 271, 295
Ashley, W. J.: 13
Astor Estate: 82
Augustine, Saint: 270
Australasia: special land taxes in, 110; minimum wage in, 359

B. & O. Plan: 384, 385
Basil, Saint: 270
Benedict XIV, Pope: 152
Bible, the: on the duty of benevolence, 268, 269, 279
Bishops' Program of Social Reconstruction: 247, 381
Brandeis, Louis D.: 234, 363
Business man: functions and rewards of, 207-209, 223-226; no right of to minimum profits, 227-229, 323, 324; the superfluous, 229, 230

Canada: special land taxes in, 106
Canonist: doctrine of wage justice: 294-298
Canon Law: on interest taking: 152
Canons of distributive justice: 212-222
Capital: meaning of, 117-118, power of to create value, 126-128; Catholic teaching concerning interest on, 154-156; titles of to interest, 156-164; value of in a no-interest regime, 166-168; need for a wider distribution of, 183-185; need for ownership of by labor, 199-201
Capitalists: two kinds of, 118; expropriation of, 134-136; right of to take interest, 173-180; claims of, versus claims of laborer, 324-327, 347-349, 352
Carver, T. N.: 310-314
Catholic Church: attitude of toward interest, 151-153
Child workers: right of to a living wage, 330
Christian conception of welfare: 279-281
Clark, J. B.: 239-240, 308-310
Clark, Lindley D.: 361-362
Compensation: to landowners, 36-41; to capitalists under Socialism, 134-138
Competition: alleged failure of, 244-245
Confiscation: of land values under Single Tax, 36-41; of capital under Socialism, 134-138; of wealth by taxation, 265, 267
Consumer: injury to by stock-watering, 250-257; obligations of to business man, 227, 228; versus laborer, 349-354
Contract: onerous, 288; free, as a rule of wage justice, 290-292, 327-329
Co-operation: a partial solvent of capitalism, 181-204; essence and kinds of, 185, 186; in banking, 186, 188; in agriculture, 188-190; in housing, 192-3; in production, 193-199; effect of on social stability, 201; as compared with individualism and Socialism, 201-203; province and limitations of, 202-204; bearing of on the su-

perfluous business man, 230; and on the laboring classes, 388-389
Co-partnership: 195, 388
Corporation: profits of a, 210, 211, 226-227, 232, 257
Cost of living: 338
Cost of production: of capital, 166, 167
Credit Societies: co-operative, 186-188

Defects of our land system: 73-86; monopoly, 74-78; excessive gains, 78-82; exclusion, 82-86
Democracy: in industry, 382-390. see *Industrial Democracy*
Devas, Charles: 163
Dixon, F. H.: 285
Discriminative transporation contracts: 241-242
Discriminative underselling: 236-239
Distribution of superfluous wealth: 268-281
Distributive justice: canons of, 212-222, 339, 340

Earth: right of access to, 317-319
Economic determinism: 23, 125, 126, 304-305
Efficiency: monopolistic, 234-236, 244-245, 246-247; exceptional, 346
Efforts: exceptional, as claim to rewards, 340-343; and sacrifices, as canons of distribution, 214
Electric power: danger of monopoly, 77-78
Ely, R. T.: 292
Employer: gains of, from wage contract, 288-289; obligation of, to pay a living wage, 322-323
Engels, F.: 23
Ensor, E. K.: 52.
Equal gains, as a canon of wage justice, 288-290
Equality: as a canon of justice 212-213; of men's claims to the bounty of nature, 317-318; of rights to a decent livelihood, 319
"Equitable minimum": of wages, 346, 347, 350, 351, 352, 353, 354
Equity: meaning of, 225
Exchange-equivalence: theories of, 287-301, equal gains, 288-290; free contract, 290-292; market value, 292-294, medieval, 294-298; modern, 298-301
Exclusion from the land: 82-86
Exclusive-sales contracts: 239-241
Expropriation: of capitalists under Socialism, 134-136
Extrinsic titles: of interest, 151

Family allowances: 333-335
Family living wage: 330-333
Fathers of the Church: on private property in land, 61; on duty of beneficence, 270-271
Fay, C. R.: 185, 198
Federal Trade Commission: 245-246
Fortunes: legal limitation of, 259-267; directly, 260-263; by taxation, 263-267
Franklin Co-operative Creamery: 194
Fustel de Coulanges: 13

Gains: excessive from land: 78-82; from monopolies, 232-234
Germany: cooperation in, 186-187; increment taxes in, 104, 105
Giffen, Sir Robert: 167
Godwin, W.: 302
Government ownership: of urban land, 89-91; limitations of, 141-144
Great Britain: cooperation in, 191-192; minimum wage in, 358

Hammond, M. B.: 359.
Henry George: on primitive common ownership, 20-21; on first occupancy, 24-27; on title of labor, 27-32; on natural right to land, 32-41; on right of community to land values and rent, 41-49; on Single Tax, 53-54
Hillquit, Morris: 139
Hobson, J. A.: 376
Howe, F. C.: 75-77
Human welfare: the test of property rights, 40-41; and the system of land tenure, 73; and increment taxes, 100-102; and titles of property, 130, 131, 213, 261-262; as a canon of distributive justice, 220-222; as justifying profits, 225, 226, 347; as justifying higher than living wages, 343-344

Income: share of national received by landowners, 80; by capitalists, 134, 181

Incomes: injustice of equal, 212, 213; progressive taxation of, 264-267
Increment taxes: 91-105
Industrial democracy: and betterment of condition of labor, 382-390
Inheritance: legal limitation of, 261-263; progressive taxation of, 266-267
Interest: nature of, 117-120; rate of, 121-124; alleged intrinsic justifications of, 150-164; attitude of Church toward, 150-153; extrinsic, 151; and the title of productivity, 156-159; and the title of service, 160-161, and the title of abstinence, 161-164; social and presumptive justifications of, 165-180; necessity of, 168-171; civil authorization of, 173-176; how justified, 176-180; a "workless income", 181; possibility of reducing rate, 182-183; distinguished from profits, 208, 209; versus wages, 347-349
Investor: the "innocent", 254-256
Ireland: reduction of rents in, 68-70; compulsory sale of land in, 100; cooperation in, 189

Justice: dependence of on charity, 281; not found in prevailing rate theory, 286; nor in exchange-equivalence theories, 287-301; nor in productivity theories, 301-314; and the wage contract, 327-331; and the minimum wage, 371-372

Kautsky, Karl: 133
King, W. I.: 80, 135

Labor: as a title to land, 27-31; and to product, 46-48; and to the entire product of industry, 125-131, 302-308; productivity of 157, 159; inefficiency of under Socialism, 141-146; medieval measure cost of, 296, 298; claims of different groups, 339-345; legislative proposals, 378-380
Labor banks: 188
Labor unions: 374-378
Labor sharing in management: 383-385
Laborer: claim of to rent: 70-72; right of to his product, 27-29, 45, 47, 128-130, 158, 159; gains of from wage contract, 289-290; right of to a living wage, 321-323, 330-333; versus the capitalist, 347-49, 352, 353; versus the consumer, 349-354; and cooperative enterprise, 388
Land: comparative value of, 78, 79; distribution of, 20, 81-82; accessibility to, 82-86; the leasing system, 88, 89; public ownership, 89-91; taxation, 91-113
Landowner: right of to rent, 67-72; his share of product, 78-82
Landownership: in history, 12-21, two theories of 8, 9; in pre-agricultural conditions, 14-16; origin of private, 16-18; prevalence and benefits of, 9-21; against private, 22-49; by Socialists, 22-24; by Henry George, 24-49; private the best system of tenure, 50-56; four elements of, 50, 51; a natural right, 57-66. See *Henry George, Occupancy, Compensation, Confiscation, Defects, Rent*
Land system: defects of the existing, 73-86
Land values: how created by the community, 42-49; increase of, 79-82; taxation of, 91-112
Langenstein: 297
Lassalle, F.: 161
Leadership: industrial under Socialism, 138-141
Leasing system: 88, 89
Legislation: for labor, 378-380
Liberty: under Socialism, 146-149
Liebknecht, W.: 132
Life: right to, 57, 58; true conception of, 279-281
Limitation of fortunes: 259-267
Livelihood, decent: 319-321, 323, 324
Living wage: the minimum of wage justice, 315-338; fundamental principles, 317-319; and a decent livelihood, 319-321; right of the laborer to, 321-323; obligation of employer to pay, 321-330; for a family, 330-333; and social welfare, 336; authorities for, 336, 338; money measure of, 338; versus other titles of reward, 339-340, 343
Loan capitalist: and the claims of the laborer, 324, 347
Loans: attitude of Church toward

interest on, 151-153; and productive capital, 154-156

Maine, Sir Henry: 20, 21
Management: labor sharing in, 383-385
Market value: and wage justice, 292-294, 327, 332
Marriage: right to, 58; and reasonable life, 331
Marx, Karl: 125-128, 304, 305
Materialism: in current conception of welfare, 277-279
Meade, E. S.: 234, 235
Menger, A.: 302, 303
Middle Ages, doctrines of: on interest, 151, 154, 155, 173; on titles of gain, 154; on wage justice, 294-297
Minimum: of wage justice, 315-335
Minimum profits: 227-229
Minimum wage: 312-314, 357-374; the constitutional aspect, 362-371; the political aspect, 371-372; the economic aspect, 372-374; in operation, 357-362
Monopoly: in relation to land, 74-78; moral aspect of, 231-247; excessive gains, 232-234; discriminative underselling, 236-239; favors to by railroads, 241, 242; natural, 242, 243; suppression versus regulation of, 243-247; by labor, 344, 353

National income: 80, 134
Needs: as a canon of justice, 213, 214, 315-317, 273-275; exaggerated conception of, 277-279; a standard of wage justice in Middle Ages, 294, 297

Occupancy: first: as title to land, 24-27; as exemplified in increment taxes, 99
Ownership: titles of determined by reasonable distribution, 130

Pastoral Letter of Catholic Hierarchy, 337
Personality: as basis of industrial rights, 317-321, 323, 324
Pesch, H.: 185
Philadelphia Rapid Transit Company: 195, 388
Pinchot: Governor, 77, 78
Pope Benedict XIV: 152
Clement IV: 26
Gregory the Great: 270
Innocent XI: 279
Leo XIII: 63-65, 271, 274, 336
Sixtus V: 154
Possession: as a partial justification of interest, 178
Presumption: as a partial justification of interest, 177; and the canon of productivity, 217
Prices: test of extortionate, 237-239; legalized agreements fixing, 244, 245; versus wages, 349-354
Product: distribution of national, 1-4
Production: of land values, 41-49; cooperation in, 193-199
Productivity: as a title to the product, 27-31, 45-47, 128-130, 157-158; as a title to interest, 151-152, 156-159, 177; of labor and capital, 157-159; as a canon of distribution, 216-218, 310-311; as justifying large profits, 224-227, 231, 346; as a title to wages, 302-306, 342; Clark's theory of, 308-310; Carver's theory of, 310-314
Profits: nature of, 207-211; as compared with interest and rent, 120-121, 208-209, amount of, 209-210; in a corporation, 210-211; in conditions of competition, 223-230; indefinitely large, 224-227; minimum, 227-229; labor sharing in, 385-387; surplus and excessive, 232-234; in natural monopolies, 242-243; versus wages, 345-347
"Progress and Poverty": 25, 27, 28, 33, 36, 40, 42, 54
Proudhon: 303

Rent: economic, 7-11; commercial, 9; how produced by society, 41-49; increase and amount of, 80-81; distribution of, 81; right of landowner to, 67-72; right of tenant and laborer to, 68-71
Rent charges: 154, 155
"Res fructificat domino": 95, 96, 102, 159, 306
Revolution: versus reform, 87
Right: of the individual to land, 32-41; of the community to land values and rent, 41-49; of producer to his product; see *Productivity;* of private landowner-

ship, 57-66; to take rent, 67-72; of access to the earth, 317-319; to a decent livelihood, 319-321; to a living wage, 321-327, 329-330, 330-333
Rights: three principal kinds of natural, 57-59; of property as created by the state, 174
Rodbertus, K.: 303

Saint-Simon: 342
Sacrifice: principle of in taxation, 264-265; as a title to interest, 163-164; as a title of reward, 341-343
Savers: three kinds of, 162, 163
Scarcity: and productive agents, 78; as a canon of distributive justice, 218-219; and large profits, 224-226
Schmoller: 222
Schoolmen: doctrines of on wage justice, 295-298
Seligman, E. R. A.: 92, 264, 265
Service: as a title to interest, 158-161, 177
Sidgwick, H.: 291
Single Tax: injustice of, 36-41, 91; proposals and defects of, 53-55, 99, 106
Skelton, O. D.: 144
Small, A. W.: 150
Social insurance: 380-381
Social Reconstruction Program 247, 381
Socialism: as regards land, 50, 53; not inevitable, 133; expropriation of capitalists by, 134-138; inefficiency, 138-146; hostile to individual liberty, 146-149; not cooperation, 201-202
Socialists: on private landownership, 22-24; on interest, value and labor, 125-129; on the collectivist State, 132, 133; on morality of profits, 223; on wage justice, 302-308; on the principle of needs, 315
Socialist party: of the United States, on landownership; 53
Spargo, John: 53
Speculation: effect of on land values, 84, 85, 94
Spencer, Herbert: 26
Standard Oil Company: 75, 232, 236
State, the: and interest, 171-173; and property rights, 174-176; and living profits, 228; and price fixing, 243-245, 246; and the "innocent" investor, 254-256; and stockwatering, 258; and the limitation of fortunes, 259-267; and living wages, 322, 323; and minimum wage, 371, 378-380; and other labor legislation, 380, 382
Stockholders: and surplus gains, 226-227; and stockwatering, 249-250, 253, 254
Stockwatering: moral aspect of, 248-258, definition, 249; injurious effects of, 249-253; and the "innocent" investor, 254-257; magnitude of, 257, 258; prevention of, 258
Stores: cooperation in, 190-192
Superfluous wealth: duty of distributing, 268-281; kinds of, 273-274; a false conception of, 277-279; a true conception of, 279-281. See *Wealth*
Supertaxes: on certain kinds of land, 110-112
Surplus profits: division among workers, 227
Supply and demand: as determining rent, 78; as determining interest, 123-124

Taft, Chief Justice: 365
Taussig, F. W.: 170, 181, 185, 258
Tawney, R. H.: 373
Taxation: as a social instrument, 92, 93; of increases in land value, 93-105; faculty theory of, 98, 99; progressive as a method of limiting fortunes, 263-267
Taxes: transfer of to land, 105-109; social benefits of, 109-110; on incomes and inheritances, 264-267
Tenant: claim of to rent, 68-70
Theologians: on private landownership, 61-63; on interest, 151-153, 175; on property rights, 175; on duty of benevolent distribution, 274
Thompson, W.: 302

Union-management cooperation: 382-385
United States: special land taxes in 106; cooperation in, 187, 188, 189; minimum wage in, 358, 359, 361-372

United States Steel Corporation: 236, 254, 257

Value: Marxian theory of, 126-128, 295, 304, 305; and wage justice, 292-294; and a living wage, 327, 329
Van Hise, C. R.: 234, 236

Wage justice: unacceptable theories of, 285-314; the minimum of, 315-338; problem of complete, 339-356
Wages: versus profits, 345-347; versus interest, 347-349; versus prices, 349-354; methods of increasing, 357-390
Wagner, A.: 303
Water power: in the United States, 77, 78, 88
Wealth: duty of distributing, 268-281
Welfare: a false conception of, 277-279; true conception of, 279-281. See *Human Welfare*
Whittaker, Sir Thomas: 13, 14, 31
Wicker, G. R.: 309
Williams, A.: 203
Women: and a living wage, 330

339 R98D

آخری درج شدہ تاریخ پر یہ کتاب مستعار
لی گئی تھی مقررہ مدت سے زیادہ رکھنے کی
صورت میں ایک آنہ یومیہ جرمانہ لیا جائے گا۔