

HUMAN ACTION

by Ludwig von Mises, 4th edition (1996)

PART FOUR

CATALLACTICS OR ECONOMICS OF THE MARKET SOCIETY

XXI. WORK AND WAGES && 1-6

1. Introversive Labor and Extroversive Labor

A man may overcome the disutility of labor (forego the enjoyment of leisure) for various reasons.

1. He may work in order to make his mind and body strong, vigorous, and agile. The disutility of labor is not a price expended for the attainment of these goals; overcoming it is inseparable from the contentment sought. The most conspicuous examples are genuine sport, practiced without any design for reward and social success, and the search for truth and knowledge pursued for its own sake and not as a means of improving one's own efficiency and skill in the performance of other kinds of labor aiming at other ends.¹

2. He may submit to the disutility of labor in order to serve God. He sacrifices leisure to please God and to be rewarded in the beyond by eternal bliss and in the earthly pilgrimage by the supreme delight which the certainty of having complied with all religious duties affords. (If, however, he serves God in order to attain worldly ends--his daily bread and success in his secular affairs--his conduct does not differ substantially from other endeavors to attain mundane advantages by expending labor. Whether the theory guiding his conduct is correct and whether his expectations will materialize are irrelevant to the catallactic qualification of his mode of acting.²)

3. He may toil in order to avoid greater mischief. He submits to the disutility of labor in order to forget, to escape from depressing thoughts and to banish annoying moods; work for him is, as it were, a perfected refinement of play. This refined playing must not be confused with the simple games of children which are merely pleasure-producing. (However, there are also other children's games. Children too are sophisticated enough to indulge in refined play.)

4. He may work because he prefers the proceeds he can earn by working to the disutility of labor and the pleasures of leisure.

The labor of the classes 1, 2, 3 is expended because the disutility of labor in itself--and not its product--satisfies. One toils and troubles not in order to reach a goal at the termination of the march, but for the very sake of marching. The mountain-climber does not want simply to

¹ Cognition does not aim at a goal beyond the act of knowing. what satisfies the thinker is thinking as such, not obtaining perfect knowledge, a goal inaccessible to man.

² It is hardly necessary to remark that comparing the craving for knowledge and the conduct of a pious life with sport and play does not imply any disparagement of either.

reach the peak, he wants to reach it by climbing. He disdains the rack railway which would bring him to the summit more quickly and without trouble even though the fare is cheaper than the costs incurred by climbing (e.g., the guide's fee). The toil of climbing does not gratify him immediately; it involves disutility of labor. But it is precisely overcoming the disutility of labor that satisfies him. A less exerting ascent would please him not better, but less.

We may call the labor of classes 1, 2, and 3 introversive labor and distinguish it from the extroversive labor of class 4. In some cases introversive labor may bring about--as a by-product as it were--results for the attainment of which other people would submit to the disutility of labor. The devout may nurse sick people for a heavenly reward; the truth seeker, exclusively devoted to the search for knowledge, may discover a practically useful device. To this extent introversive labor may influence the supply on the market. But as a rule catallactics is concerned only with extroversive labor.

The psychological problems raised by introversive labor are catallactically irrelevant. Seen from the point of view of economics introversive labor is to be qualified as consumption. Its performance as a rule requires not only the personal efforts of the individuals concerned, but also the expenditure of material factors of production and the produce of other peoples' extroversive, not immediately gratifying labor that must be bought by the payment of wages. The practice of religion requires places of worship and their equipment, sport requires diverse utensils and apparatus, trainers and coaches. All these things belong in the orbit of consumption.

2. Joy and Tedium of Labor

Only extroversive, not immediately gratifying labor is a topic of catallactic disquisition. The characteristic mark of this kind of labor is that it is performed for the sake of an end which is beyond its performance and the disutility which it involves. People work because they want to reap the produce of labor. The labor itself causes disutility. But apart from this disutility which is irksome and would enjoin upon man the urge to economize labor even if his power to work were not limited and he were able to perform unlimited work, special emotional phenomena sometimes appear, feelings of joy or tedium, accompanying the execution of certain kinds of labor.

Both, the joy and the tedium of labor, are in a domain other than the disutility of labor. The joy of labor therefore can neither alleviate nor remove the disutility of labor. Neither must the joy of labor be confused with the immediate gratification provided by certain kinds of work. It is an attendant phenomenon which proceeds either from labor's mediate gratification, the produce or reward, or from some accessory circumstances.

People do not submit to the disutility of labor for the sake of the joy which accompanies the labor, but for the sake of its mediate gratification. In fact the joy of labor presupposes for the most part the disutility of the labor concerned.

The sources from which the joy of labor springs are:

1. The expectation of the labor's mediate gratification, the anticipation of the enjoyment of its success and yield. The toiler looks at his work as a means for the attainment of an end sought, and the progress of his work delights him as an approach toward his goal. His joy is a foretaste of the satisfaction conveyed by the mediate gratification. In the frame of social

cooperation this joy manifests itself in the contentment of being capable of holding one's ground in the social organism and of rendering services which one's fellow men appreciate either in buying the product or in remunerating the labor expended. The worker rejoices because he gets self-respect and the consciousness of supporting himself and his family and not being dependent on other people's mercy.

2. In the pursuit of his work the worker enjoys the aesthetic appreciation of his skill and its product. This is not merely the contemplative pleasure of the man who views things performed by other people. It is the pride of a man who is in a position to say: I know how to make such things, this is my work.

3. Having completed a task the worker enjoys the feeling of having successfully overcome all the toil and trouble involved. He is happy in being rid of something difficult, unpleasant, and painful, in being relieved for a certain time of the disutility of labor. His is the feeling of "I have done it."

4. Some kinds of work satisfy particular wishes. There are, for example, occupations which meet erotic desires--either conscious or subconscious ones. These desires may be normal or perverse. Also fetishists, homosexuals, sadists and other perverts can sometimes find in their work an opportunity to satisfy their strange appetites. There are occupations which are especially attractive to such people. Cruelty and blood-thirstiness luxuriantly thrive under various occupational cloaks.

The various kinds of work offer different conditions for the appearance of the joy of labor. These conditions may be by and large more homogeneous in classes 1 and 3 than in class 2. It is obvious that they are more rarely present for class 4.

The joy of labor can be entirely absent. Psychological factors may eliminate it altogether. On the other hand one can purposely aim at increasing the joy of labor.

Keen discerners of the human soul have always been intent upon enhancing the joy of labor. A great part of the achievements of the organizers and leaders of armies of mercenaries belonged to this field. Their task was easy as far as the profession of arms provides the satisfactions of class 4. However, these satisfactions do not depend on the arms-bearer's loyalty. They also come to the soldier who leaves his war-lord in the lurch and turns against him in the service of new leaders. Thus the particular task of the employers of mercenaries was to promote an esprit de corps and loyalty that could render their hirelings proof against temptations. There were also, of course, chiefs who did not bother about such impalpable matters. In the armies and navies of the eighteenth century the only means of securing obedience and preventing desertion were barbarous punishments.

Modern industrialism was not intent upon designedly increasing the joy of labor. It relied upon the material improvement that it brought to its employees in their capacity as wage earners as well as in their capacity as consumers and buyers of the products. In view of the fact that job-seekers thronged to the plants and everyone scrambled for the manufactures, there seemed to be no need to resort to special devices. The benefits which the masses derived

from the capitalist system were so obvious that no entrepreneur considered it necessary to harangue the workers with procapitalist propaganda. Modern capitalism is essentially mass production for the needs of the masses. The buyers of the products are by and large the same people who as wage earners cooperate in their manufacturing. Rising sales provided dependable information to the employer about the improvement of the masses' standard of living. He did not bother about the feelings of his employees as workers. He was exclusively intent upon serving them as consumers. Even today, in face of the most persistent and fanatical anticapitalist propaganda, there is hardly any counter-propaganda.

This anticapitalist propaganda is a systematic scheme for the substitution of tedium for the joy of labor. The joy of labor of classes 1 and 2 depends to some extent on ideological factors. The worker rejoices in his place in society and his active cooperation in its productive effort. If one disparages this ideology and replaces it by another which represents the wage earner as the distressed victim of ruthless exploiters, one turns the joy of labor into a feeling of disgust and tedium.

No ideology, however impressively emphasized and taught, can affect the disutility of labor. It is impossible to remove or to alleviate it by persuasion or hypnotic suggestion. On the other hand it cannot be increased by words and doctrines. The disutility of labor is a phenomenon unconditionally given. The spontaneous and carefree discharge of one's own energies and vital functions in aimless freedom suits everybody better than the stern restraint of purposive effort. The disutility of labor also pains a man who with heart and soul and even with self-denial is devoted to his work. He too is eager to reduce the lump of labor if it can be done without prejudice to the mediate gratification expected, and he enjoys the joy of labor of class 3.

However, the joy of labor of classes 1 and 2 and sometimes even that of class 3 can be eliminated by ideological influences and be replaced by the tedium of labor. The worker begins to hate his work if he becomes convinced that what makes him submit to the disutility of labor is not his own higher valuation of the stipulated compensation, but merely an unfair social system. Deluded by the slogans of the socialist propagandists, he fails to realize that the disutility of labor is an inexorable fact of human conditions, something ultimately given that cannot be removed by devices or methods of social organization. He falls prey to the Marxian fallacy that in a socialist commonwealth work will arouse not pain but pleasure.³

The fact that the tedium of labor is substituted for the joy of labor affects the valuation neither of the disutility of labor nor of the produce of labor. Both the demand for labor and the supply of labor remain unchanged. For people do not work for the sake of labor's joy, but for the sake of the mediate gratification. What is altered is merely the worker's emotional attitude. His work, his position in the complex of the social division of labor, his relations to other members of society and to the whole of society appear to him in a new light. He pities himself as the defenseless victim of an absurd and unjust system. He becomes an ill-humored grumbler, an unbalanced personality, an easy prey to all sorts of quacks and cranks. To be joyful in the performance of one's tasks and in overcoming the disutility of labor makes people cheerful and strengthens their energies and vital forces. To feel tedium in working

³ Engels, *Herrn Eugen Dührings Umwälzung der Wissenschaft* (7th ed. Stuttgart, 1910), p. 317. See above, p. 137

makes people morose and neurotic. A commonwealth in which the tedium of labor prevails is an assemblage of rancorous, quarrelsome and wrathful malcontents.

However, with regard to the volitional springs for overcoming the disutility of labor, the role played by the joy and the tedium of labor is merely accidental and supererogatory. There cannot be any question of making people work for the mere sake of the joy of labor. The joy of labor is no substitute for the mediate gratification of labor. The only means of inducing a man to work more and better is to offer him a higher reward. It is vain to bait him with the joy of labor. When the dictators of Soviet Russia, Nazi Germany, and Fascist Italy tried to assign to the joy of labor a definite function in their system of production, they saw their expectations blighted.

Neither the joy nor the tedium of labor can influence the amount of labor offered on the market. As far as these feelings are present with the same intensity in all kinds of work, the case is obvious. But it is the same with regard to joy and tedium which are conditioned by the particular features of the work concerned or the particular character of the worker. Let us look, for example, at the joy of class 4. The eagerness of certain people to get jobs which offer an opportunity for the enjoyment of these particular satisfactions tends to lower wage rates in this field. But it is precisely this effect that makes other people, less responsive to these questionable pleasures, prefer other sectors of the labor market in which they can earn more. Thus an opposite tendency develops which neutralizes the first one.

The joy and the tedium of labor are psychological phenomena which influence neither the individual's subjective valuation of the disutility and the mediate gratification of labor nor the price paid for labor on the market.

3. Wages

Labor is a scarce factor of production. As such it is sold and bought on the market. The price paid for labor is included in the price allowed for the product or the services if the performer of the work is the seller of the product or the services. If bare labor is sold and bought as such, either by an entrepreneur engaged in production for sale or by a consumer eager to use the services rendered for his own consumption, the price paid is called wages.

For acting man his own labor is not merely a factor of production but also the source of disutility; he values it not only with regard to the mediate gratification expected but also with regard to the disutility it causes. But for him, as for everyone, other people's labor as offered for sale on the market is nothing but a factor of production. Man deals with other people's labor in the same way that he deals with all scarce material factors of production. He appraises it according to the principles he applies in the appraisal of all other goods. The height of wage rates is determined on the market in the same way in which the prices of all commodities are determined. In this sense we may say that labor is a commodity. The emotional associations which people, under the influence of Marxism, attach to this term do not matter. It suffices to observe incidentally that the employers deal with labor as they do with commodities because the conduct of the consumers forces them to proceed in this way.

It is not permissible to speak of labor and wages in general without resorting to certain restrictions. A uniform type of labor or a general rate of wages do not exist. Labor is very different in quality, and each kind of labor renders specific services. Each is appraised as a complementary factor for turning out definite consumers' goods and services. Between the

appraisal of the performance of a surgeon and that of a stevedore there is no direct connection. But indirectly each sector of the labor market is connected with all other sectors. An increase in the demand for surgical services, however great, will not make stevedores flock into the practice of surgery. Yet the lines between the various sectors of the labor market are not sharply drawn. There prevails a continuous tendency for workers to shift from their branch to other similar occupations in which conditions seem to offer better opportunities. Thus finally every change in demand or supply in one sector affects all other sectors indirectly. All groups indirectly compete with one another. If more people enter the medical profession, men are withdrawn from kindred occupations who again are replaced by an inflow of people from other branches and so on. In this sense there exists a connexity between all occupational groups however different the requirements in each of them may be. There again we are faced with the fact that the disparity in the quality of work needed for the satisfaction of wants is greater than the diversity in men's inborn ability to perform work.⁴

Connexity exists not only between different types of labor and the prices paid for them but no less between labor and the material factors of production. Within certain limits labor can be substituted for material factors of production and vice versa. The extent that such substitutions are resorted to depends on the height of wage rates and the prices of material factors. The determination of wage rates--like that of the prices of material factors of production--can be achieved only on the market. There is no such thing as nonmarket wage rates, just as there are no nonmarket prices. As far as there are wages, labor is dealt with like any material factor of production and sold and bought on the market. It is usual to call the sector of the market of producers' goods on which labor is hired the labor market. As with all other sectors of the market, the labor market is actuated by the entrepreneurs intent upon making profits. Each entrepreneur is eager to buy all the kinds of specific labor he needs for the realization of his plans at the cheapest price. But the wages he offers must be high enough to take the workers away from competing entrepreneurs. The upper limit of his bidding is determined by anticipation of the price he can obtain for the increment in salable goods he expects from the employment of the worker concerned. The lower limit is determined by the bids of competing entrepreneurs who themselves are guided by analogous considerations. It is this that economists have in mind in asserting that the height of wage rates for each kind of labor is determined by its marginal productivity. Another way to express the same truth is to say that wage rates are determined by the supply of labor and of material factors of production on the one hand and by the anticipated future prices of the consumers' goods.

This catallactic explanation of the determination of wage rates has been the target of passionate but entirely erroneous attacks. It has been asserted that there is a monopoly of the demand for labor. Most of the supporters of this doctrine think that they have sufficiently proved their case by referring to some incidental remarks of Adam Smith concerning "a sort of tacit but constant and uniform combination" among employers to keep wages down.⁵ Others refer in vague terms to the existence of trade associations of various groups of businessmen. The emptiness of all this talk is evident. However, the fact that these garbled ideas are the main ideological foundation of labor unionism and the labor policy of all contemporary governments makes it necessary to analyze them with the utmost care.

⁴ Cf. above, pp. 133-135.

⁵ Cf. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Basle, 1791), vol. I, Bk. I, chap. viii, p. 100. Adam Smith himself seems to have unconsciously given up the idea. Cf. W.H. Hutt, *The Theory of Collective Bargaining* (London, 1930), pp. 24-25.

The entrepreneurs are in the same position with regard to the sellers of labor as they are with regard to the sellers of the material factors of production. They are under the necessity of acquiring all factors of production at the cheapest price. But if in the pursuit of this endeavor some entrepreneurs, certain groups of entrepreneurs, or all entrepreneurs offer prices or wage rates which are too low, i.e., do not agree with the state of the unhampered market, they will succeed in acquiring what they want to acquire only if entrance into the ranks of entrepreneurship is blocked through institutional barriers. If the emergence of new entrepreneurs or the expansion of the activities of already operating entrepreneurs is not prevented, any drop in the prices of factors of production not consonant with the structure of the market must open new chances for the earning of profits. There will be people eager to take advantage of the margin between the prevailing wage rate and the marginal productivity of labor. Their demand for labor will bring wage rates back to the height conditioned by labor's marginal productivity. The tacit combination among the employers to which Adam Smith referred, even if it existed, could not lower wages below the competitive market rate unless access to entrepreneurship required not only brains and capital (the latter always available to enterprises promising the highest returns), but in addition also an institutional title, a patent, or a license, reserved to a class of privileged people.

It has been asserted that a job-seeker must sell his labor at any price, however low, as he depends exclusively on his capacity to work and has no other source of income. He cannot wait and is forced to content himself with any reward the employers are kind enough to offer him. This inherent weakness makes it easy for the concerted action of the masters to lower wage rates. They can, if need be, wait longer, as their demand for labor is not so urgent as the worker's demand for subsistence. The argument is defective. It takes it for granted that the employers pocket the difference between the marginal-productivity wage rate and the lower monopoly rate as an extra monopoly gain and do not pass it on to the consumers in the form of a reduction in prices. For if they were to reduce prices according to the drop in costs of production, they, in their capacity as entrepreneurs and sellers of the products, would derive no advantage from cutting wages. The whole gain would go to the consumers and thereby also to the wage-earners in their capacity as buyers; the entrepreneurs themselves would be benefitted only as consumers. To retain the extra profit resulting from the "exploitation" of the workers' alleged poor bargaining power would require concerted action on the part of employers in their capacity as sellers of the products. It would require a universal monopoly of all kinds of production activities which can be created only by an institutional restriction of access to entrepreneurship.

The essential point of the matter is that the alleged monopolistic combination of the employers about which Adam Smith and a great part of public opinion speak would be a monopoly of demand. But we have already seen that such alleged monopolies of demand are in fact monopolies of supply of a particular character. The employers would be in a position enabling them to lower wage rates by concerted action only if they were to monopolize a factor indispensable for every kind of production and to restrict the employment of this factor in a monopolistic way. As there is no single material factor indispensable for every kind of production, they would have to monopolize all material factors of production. This condition would be present only in a socialist community, in which there is neither a market nor prices and wage rates.

Neither would it be possible for the proprietors of the material factors of production, the capitalists and the landowners, to combine in a universal cartel against the interests of the workers. The characteristic mark of production activities in the past and in the foreseeable

future is that the scarcity of labor exceeds the scarcity of most of the primary, nature-given material factors of production. The comparatively greater scarcity of labor determines the extent to which the comparatively abundant primary natural factors can be utilized. There is unused soil, there are unused mineral deposits and so on because there is not enough labor available for their utilization. If the owners of the soil that is tilled today were to form a cartel in order to reap monopoly gains, their plans would be frustrated by the competition of the owners of the submarginal land. The owners of the produced factors of production in their turn could not combine in a comprehensive cartel without the cooperation of the owners of the primary factors.

Various other objections have been advanced against the doctrine of the monopolistic exploitation of labor by a tacit or avowed combine of employers. It has been demonstrated that at no time and at no place in the unhampered market economy can the existence of such cartels be discovered. It has been shown that it is not true that the job-seekers cannot wait and are therefore under the necessity of accepting any wage rates, however low, offered to them by the employers. It is not true that every unemployed worker is faced with starvation; the workers too have reserves and can wait; the proof is that they really do wait. On the other hand waiting can be financially ruinous to the entrepreneurs and capitalists too. If they cannot employ their capital, they suffer losses. Thus all the disquisitions about an alleged "employers' advantage" and "workers' disadvantage" in bargaining are without substance.⁶

But these are secondary and accidental considerations. The central fact is that a monopoly of the demand for labor cannot and does not exist in an unhampered market economy. It could originate only as an outgrowth of institutional restrictions of access to entrepreneurship.

Yet one more point must be stressed. The doctrine of the monopolistic manipulation of wage rates by the employers speaks of labor as if it were a homogeneous entity. It deals with such concepts as demand for "labor in general" and supply of "labor in general." But such notions have, as has been pointed out already, no counterpart in reality. What is sold and bought on the labor market is not "labor in general," but definite specific labor suitable to render definite services. Each entrepreneur is in search of workers who are fitted to accomplish those specific tasks which he needs for the execution of his plans. He must withdraw these specialists from the employments in which they happen to work at the moment. The only means he has to achieve this is to offer them higher pay. Every innovation which an entrepreneur plans--the production of a new article, the application of a new process of production, the choice of a new location for a specific branch or simply the expansion of production already in existence either in his own enterprise or in other enterprises--requires the employment of workers hitherto engaged somewhere else. The entrepreneurs are not merely faced with a shortage of "labor in general," but with a shortage of those specific types of labor they need for their plants. The competition among the entrepreneurs in bidding for the most suitable hands is no less keen than their competition in bidding for the required raw materials, tools, and machines and in their bidding for capital on the capital and loan market. The expansion of the activities of the individual firms as well as of the whole society is not only limited by the amount of capital goods available and of the supply of "labor in general." In each branch of production it is also limited by the available supply of specialists. This is, of course, only a temporary obstacle which vanishes in the long run when more workers, attracted by the higher pay of the specialists in comparatively undermanned branches, will have trained themselves for the

⁶ All these and many other points are carefully analyzed by Hutt, *op. cit.*, pp. 35-72.

special tasks concerned. But in the changing economy such a scarcity of specialists emerges anew daily and determines the conduct of employers in search for workers.

Every employer must aim at buying the factors of production needed, inclusive of labor, at the cheapest price. An employer who paid more than agrees with the market price of the services his employees render him, would be soon removed from his entrepreneurial position. On the other hand an employer who tried to reduce wage rates below the height consonant with the marginal productivity of labor would not recruit the type of men that the most efficient utilization of his equipment requires. There prevails a tendency for wage rates to reach the point at which they are equal to the price of the marginal product of the kind of labor in question. If wage rates drop below this point, the gain derived from the employment of every additional worker will increase the demand for labor and thus make wage rates rise again. If wage rates rise above this point, the loss incurred from the employment of every worker will force the employers to discharge workers. The competition of the unemployed for jobs will create a tendency for wage rates to drop.

4. Catallactic Unemployment

If a job-seeker cannot obtain the position he prefers, he must look for another kind of job. If he cannot find an employer ready to pay him as much as he would like to earn, he must abate his pretensions. If he refuses, he will not get any job. He remains unemployed.

What causes unemployment is the fact that--contrary to the above-mentioned doctrine of the worker's inability to wait--those eager to earn wages can and do wait. A job-seeker who does not want to wait will always get a job in the unhampered market economy in which there is always unused capacity of natural resources and very often also unused capacity of produced factors of production. It is only necessary for him either to reduce the amount of pay he is asking for or to alter his occupation or his place of work.

There were and still are people who work only for some time and then live for another period from the savings they have accumulated by working. In countries in which the cultural state of the masses is low, it is often difficult to recruit workers who are ready to stay on the job. The average man there is so callous and inert that he knows of no other use for his earnings than to buy some leisure time. He works only in order to remain unemployed for some time.

It is different in the civilized countries. Here the worker looks upon unemployment as an evil. He would like to avoid it provided the sacrifice required is not too grievous. He chooses between employment and unemployment in the same way in which he proceeds in all other actions and choices: he weighs the pros and cons. If he chooses unemployment, this unemployment is a market phenomenon whose nature is not different from other market phenomena as they appear in a changing market economy. We may call this kind of unemployment market-generated or *catallactic unemployment*.

The various considerations which may induce a man to decide for unemployment can be classified in this way:

1. The individual believes that he will find at a later date a remunerative job in his dwelling place and in an occupation which he likes better and for which he has been trained. He seeks to avoid the expenditure and other disadvantages involved in shifting from one occupation to another and from one geographical point to another. There may be special conditions

increasing these costs. A worker who owns a homestead is more firmly linked with the place of his residence than people living in rented apartments. A married woman is less mobile than an unmarried girl. Then there are occupations which impair the worker's ability to resume his previous job at a later date. A watchmaker who works for some time as a lumberman may lose the dexterity required for his previous job. In all these cases the individual chooses temporary unemployment because he believes that this choice pays better in the long run.

2. There are occupations the demand for which is subject to considerable seasonal variations. In some months of the year the demand is very intense, in other months it dwindles or disappears altogether. The structure of wage rates discounts these seasonal fluctuations. The branches of industry subject to them can compete on the labor market only if the wages they pay in the good season are high enough to indemnify the wage earners for the disadvantages resulting from the seasonal irregularity in demand. Then many of the workers, having saved a part of their ample earnings in the good season, remain unemployed in the bad season.

3. The individual chooses temporary unemployment for considerations which in popular speech are called uneconomic or even irrational. He does not take jobs which are incompatible with his religious, moral, and political convictions. He shuns occupations the exercise of which would impair his social prestige. He lets himself be guided by traditional standards of what is proper for a gentleman and what is unworthy. He does not want to lose face or caste.

Unemployment in the unhampered market is always voluntary. In the eyes of the unemployed man, unemployment is the minor of two evils between which he has to choose. The structure of the market may sometimes cause wage rates to drop. But, on the unhampered market, there is always for each type of labor a rate at which all those eager to work can get a job. The final wage rate is that rate at which all job-seekers get jobs and all employers as many workers as they want to hire. Its height is determined by the marginal productivity of each type of work.

Wage rate fluctuations are the device by means of which the sovereignty of the consumers manifests itself on the labor market. They are the measure adopted for the allocation of labor to the various branches of production. They penalize disobedience by cutting wage rates in the comparatively overmanned branches and recompense obedience by raising wage rates in the comparatively undermanned branches. They thus submit the individual to a harsh social pressure. It is obvious that they indirectly limit the individual's freedom to choose his occupation. But this pressure is not rigid. It leaves to the individual a margin in the limits of which he can choose between what suits him better and what less. Within this orbit he is free to act of his own accord. This amount of freedom is the maximum of freedom that an individual can enjoy in the framework of the social division of labor, and this amount of pressure is the minimum of pressure that is indispensable for the preservation of the system of social cooperation. There is only one alternative left to the catallactic pressure exercised by the wages system: the assignment of occupations and jobs to each individual by the peremptory decrees of an authority, a central board planning all production activities. This is tantamount to the suppression of all freedom.

It is true that under the wages system the individual is not free to choose permanent unemployment. But no other imaginable social system could grant him a right to unlimited leisure. That man cannot avoid submitting to the disutility of labor is not an outgrowth of any social institution. It is an inescapable natural condition of human life and conduct.

It is not expedient to call catallactic unemployment in a metaphor borrowed from mechanics "frictional" unemployment. In the imaginary construction of the evenly rotating economy there is no unemployment because we have based this construction on such an assumption. Unemployment is a phenomenon of a changing economy. The fact that a worker discharged on account of changes occurring in the arrangement of production processes does not instantly take advantage of every opportunity to get another job but waits for a more propitious opportunity is not a consequence of the tardiness of the adjustment to the change in conditions, but is one of the factors slowing down the pace of this adjustment. It is not an automatic reaction to the changes which have occurred, independent of the will and the choices of the job-seekers concerned, but the effect of their intentional actions. It is speculative, not frictional.

Catallactic unemployment must not be confused with *institutional unemployment*. Institutional unemployment is not the outcome of the decisions of the individual job-seekers. It is the effect of interference with the market phenomena intent upon enforcing by coercion and compulsion wage rates higher than those the unhampered market would have determined. The treatment of institutional unemployment belongs to the analysis of the problems of interventionism.

5. Gross Wage Rates and Net Wage Rates

What the employer buys on the labor market and what he gets in exchange for the wages paid is always a definite performance which he appraises according to its market price. The customs and usages prevailing on the various sectors of the labor market do not influence the prices paid for definite quantities of specific performances. Gross wage rates always tend toward the point at which they are equal to the price for which the increment resulting from the employment of the marginal worker can be sold on the market, due allowance being made for the price of the required materials and to ordinary interest on the capital needed.

In weighing the pros and cons of the hiring of workers the employer does not ask himself what the worker gets as take-home wages. The only relevant question for him is: What is the total price I have to expend for securing the services of this worker? In speaking of the determination of wage rates catallactics always refers to the total price which the employer must spend for a definite quantity of work of a definite type, i.e., to gross wage rates. If laws or business customs force the employer to make other expenditures besides the wages he pays to the employee, the take-home wages are reduced accordingly. Such accessory expenditures do not affect the gross rate of wages. Their incidence falls upon the wage-earner. Their total amount reduces the height of take-home wages, i.e., of net wage rates.

It is necessary to realize the following consequences of this state of affairs:

1. It does not matter whether wages are time wages or piecework wages. Also where there are time wages, the employer takes only one thing into account; namely, the average performance he expects to obtain from each worker employed. His calculation discounts all the opportunities time work offers to shirkers and cheaters. He discharges workers who do not perform the minimum expected. On the other hand a worker eager to earn more must either shift to piecework or seek a job in which pay is higher because the minimum of achievement expected is greater.

Neither does it matter on an unhampered labor market whether time wages are paid daily, weekly, monthly, or as annual wages. It does not matter whether the time allowed for of discharge is longer or shorter, whether agreements are made for definite periods or for the worker's lifetime, whether the employee is entitled to retirement and a pension for himself, his widow, and his orphans, to paid or unpaid vacations, to certain assistance in case of illness or invalidism or to any other benefits and privileges. The question the employer faces is always the same: Does it or does it not pay for me to enter into such a contract? Don't I pay too much for what I am getting in return?

2. Consequently the incidence of all so-called social burdens and gains ultimately falls upon the worker's net wage rates. It is irrelevant whether or not the employer is entitled to deduct the contributions to all kinds of social security from the wages he pays in cash to the employee. At any rate these contributions burden the employee, not the employer.

3. The same holds true with regard to taxes on wages. Here too it does not matter whether the employer has or has not the right to deduct them from take-home wages.

4. Neither is a shortening of the hours of work a free gift to the worker. If he does not compensate for the shorter hours of work by increasing his output accordingly, time wages will drop correspondingly. If the law decreeing a shortening of the hours of work prohibits such a reduction in wage rates, all the consequences of a government-decreed rise in wage rates appear. The same is valid with regard to all other so-called social gains, such as paid vacations and so on.

5. If the governments grants to the employer a subsidy for the employment of certain classes of workers, their take-home wages are increased by the total amount of such a subsidy.

6. If the authorities grant to every employed worker whose own earnings lag behind a certain minimum standard an allowance raising his income to this minimum, the height of wage rates is not directly affected. Indirectly a drop in wage rates could possibly result as far as this system could induce people who did not work before to seek jobs and thus bring about an increase in the supply of labor.⁷

6. Wages and Subsistence

The life of primitive man was an unceasing struggle against the scantiness of the nature-given means for his sustenance. In this desperate effort to secure bare survival, many individuals and whole families, tribes, and races succumbed. Primitive man was always haunted by the specter of death from starvation. Civilization has freed us from these perils. Human life is menaced day and night by innumerable dangers; it can be destroyed at any instant by natural forces which are beyond control or at least cannot be controlled at the present stage of our knowledge and our potentialities. But the horror of starvation no longer terrifies people living in a capitalist society. He who is able to work earns much more than is needed for bare sustenance.

⁷ In the last years of the eighteenth century, amidst the distress produced by the protracted war with France and the inflationary methods of financing it, England resorted to this makeshift (the Speenhamland system). The real aim was to prevent agricultural workers from leaving their jobs and going into the factories where they could earn more. The Speenhamland system was thus a disguised subsidy for the landed gentry saving them the expense of higher wages.

There are also, of course, disabled people who are incapable of work. Then there are invalids who can perform a small quantity of work, but whose disability prevents them from earning as much as normal workers do; sometimes the wage rates they could earn are so low that they could not maintain themselves. These people can keep body and soul together only if other people help them. The next of kin, friends, the charity of benefactors and endowments, and communal poor relief take care of the destitute. Alms-folk do not cooperate in the social process of production; as far as the provision of the means for the satisfaction of wants is concerned, they do not act; they live because other people look after them. The problems of poor relief are problems of the arrangement of consumption, not of the arrangement of production activities. They are as such beyond the frame of a theory human action which refers only to the provision of the means required for consumption, not to the way in which these means are consumed. Catallactic theory deals with the methods adopted for the charitable support of the destitute only as far as they can possibly affect the supply of labor. It has sometimes happened that the policies applied in poor relief have encouraged unwillingness to work and the idleness of able-bodied adults.

In the capitalist society there prevails a tendency toward a steady increase in the per capita quota of capital invested. The accumulation of capital soars above the increase in population figures. Consequently the marginal productivity of labor, real wage rates, and the wage earners' standard of living tend to rise continually. But this improvement in well-being is not the manifestation of the operation of an inevitable law of human evolution; it is a tendency resulting from the interplay of forces which can freely produce their effects only under capitalism. It is possible and, if we take into account the direction of present-day policies, even not unlikely that capital consumption on the one hand and an increase or an insufficient drop in population figures on the other hand will reverse things. Then it could happen that men will again learn what starvation means and that the relation of the quantity of capital goods available and population figures will become so unfavorable as to make part of the workers earn less than a bare subsistence. The mere approach to such conditions would certainly cause irreconcilable dissensions within society, conflicts the violence of which must result in a complete disintegration of all societal bonds. The social division of labor cannot be preserved if part of the cooperating members of society are doomed to earn less than a bare subsistence.

The notion of a physiological minimum of subsistence to which the "iron law of wages" refers and which demagogues put forward again and again is of no use for a catallactic theory of the determination of wage rates. One of the foundations upon which social cooperation rests is the fact that labor performed according to the principle of the division of labor is so much more productive than the efforts of isolated individuals that able-bodied people are not troubled by the fear of starvation which daily threatened their forebears. Within a capitalist commonwealth the minimum of subsistence plays no catallactic role.

Furthermore, the notion of a physiological minimum of subsistence lacks that precision and scientific rigor which people have ascribed to it. Primitive man, adjusted to a more animal-like than human existence, could keep himself alive under conditions which are unbearable to his dainty scions pampered by capitalism. There is no such thing as a physiologically and biologically determined minimum of subsistence, valid for every specimen of the zoological species homo sapiens. No more tenable is the idea that a definite quantity of calories is needed to keep a man healthy and progenitive, and a further definite quantity to replace the energy expended in working. The appeal to such notions of cattle breeding and the vivisection of guinea pigs does not aid the economist in his endeavors to comprehend the problems of

purposive human action. The "iron law of wages" and the essentially identical Marxian doctrine of the determination of "the value of labor power" by "the working time necessary for its production, consequently also for its reproduction,"⁸ are the least tenable of all that has ever been taught in the field of catallactics.

Yet it was possible to attach some meaning to the ideas implied in the iron law of wages. If one sees in the wage earner merely a chattel and believes that he plays no other role in society, if one assumes that he aims at no other satisfaction than feeding and proliferation and does not know of any employment for his earnings other than the procurement of those animal satisfactions, one may consider the iron law as a theory of the determination of wage rates. In fact the classical economists, frustrated by their abortive value theory, could not think of any other solution of the problem involved. For Torrens and Ricardo the theorem that the natural price of labor is the price which enables the wage earners to subsist and to perpetuate their race, without any increase or diminution, was the logically inescapable inference from their untenable value theory. But when their epigones saw that they could no longer satisfy themselves with this manifestly preposterous law, they resorted to a modification of it which was tantamount to a complete abandonment of any attempt to provide an economic explanation of the determination of wage rates. They tried to preserve the cherished notion of the minimum of subsistence by substituting the concept of a "social" minimum for the concept of a physiological minimum. They no longer spoke of the minimum required for the necessary subsistence of the laborer and for the preservation of an undiminished supply of labor. They spoke instead of the minimum required for the preservation of a standard of living sanctified by historical tradition and inherited customs and habits. While daily experience taught impressively that under capitalism real wage rates and the wage earners' standard of living were steadily rising, while it became from day to day more obvious that the traditional walls separating the various strata of the population could no longer be preserved because the social improvement in the conditions of the industrial workers demolished the vested ideas of social rank and dignity, these doctrinaires announced that old customs and social convention determine the height of wage rates. Only people blinded by preconceived prejudices and party bias could resort to such an explanation in an age in which industry supplies the consumption of the masses again and again with new commodities hitherto unknown and makes accessible to the average worker satisfactions of which no king could dream in the past.

It is not especially remarkable that the Prussian Historical School of the *wirtschaftliche Staatswissenschaften* viewed wage rates no less than commodity prices and interest rates as "historical categories" and that in dealing with wage rates it had recourse to the concept of "income adequate to the individual's hierarchical station in the social scale of ranks." It was the essence of the teachings of this school to deny the existence of economics and to substitute history for it. But it is amazing that Marx and the Marxians did not recognize that their endorsement of this spurious doctrine entirely disintegrated the body of the so-called Marxian system of economics. When the articles and dissertations published in England in the early 'sixties convinced Marx that it was no longer permissible to cling unswervingly to the wage theory of the classical economists, he modified his theory of the value of labor power. He declared that "the extent of the so-called natural wants and the manner in which they are satisfied, are in themselves a product of historical evolution" and "depend to a large extent on the degree of civilization attained by any given country and, among other factors, especially

⁸ Cf. Marx, *Das Kapital* (7th ed. Hamburg, 1914), I, 133. In the *Communist Manifesto* (Section II) Marx and Engels formulate their doctrine in this way: "The average price of a wage labor is the minimum wage, i.e., that quantum of means of subsistence which is absolutely required to keep the laborer in bare existence as laborer." It "merely suffices to prolong and produce a bare existence."

on the conditions and customs and pretensions concerning the standard of life under which the class of free laborers has been formed." Thus "a historical and moral element enter into the determination of the value of labor power." But when Marx adds that nonetheless "for a given country at any given time, the average quantity of *indispensable* necessities of life is a given fact,"⁹ he contradicts himself and misleads the reader. What he has in mind is no longer the "indispensable necessities," but the things considered indispensable from a traditional point of view, the means necessary for the preservation of a standard of living adequate to the workers' station in the traditional social hierarchy. The recourse to such an explanation means virtually the renunciation of any economic or catallactic elucidation of the determination of wage rates. Wage rates are explained as a datum of history. They are no longer seen as a market phenomenon, but as a factor originating outside of the interplay of the forces operating on the market.

However, even those who believe that the height of wage rates as they are actually paid and received in reality are forced upon the market from without as a datum cannot avoid developing a theory which explains the determination of wage rates as the outcome of the valuations and decisions of the consumers. Without such a catallactic theory of wages, no economic analysis of the market can be complete and logically satisfactory. It is simply nonsensical to restrict the catallactic disquisitions to the problems of the determination of commodity prices and interest rates and to accept wage rates as a historical datum. An economic theory worthy of the name must be in a position to assert with regard to wage rates more than that they are determined by a "historical and moral element." The characteristic mark of economics is that it explains the exchange ratios manifested in market transactions as market phenomena the determination of which is subject to a regularity in the concatenation and sequence of events. It is precisely this that distinguishes economic conception from the historical understanding, theory from history.

We can well imagine a historical situation in which the height of wage rates is forced upon the market by the interference of external compulsion and coercion. Such institutional fixing of wage rates is one of the most important features of our age of interventionist policies. But with regard to such a state of affairs it is the task of economics to investigate what effects are brought about by the disparity between the two wage rates, the potential rate which the unhampered market would have produced by the interplay of the supply of and the demand for labor on the one hand, and on the other the rate which external compulsion and coercion impose upon the parties to the market transactions.

It is true, wage earners are imbued with the idea that wages must be at least high enough to enable them to maintain a standard of living at least high enough to enable them to maintain a standard of living adequate to their station in the hierarchical gradation of society. Every single worker has his particular opinion about the claims he is entitled to raise on account of "status," "rank," "tradition," and "custom" in the same way as he has his particular opinion about his own efficiency and his own achievements. But such pretensions and self-complacent assumptions are without any relevance for the determination of wage rates. They limit neither the upward nor the downward movement of wage rates. The wage earner must sometimes satisfy himself with much less than what, according to his opinion, is adequate to his rank and efficiency. If he is offered more than he expected, he pockets the surplus without a qualm. The age of *laissez faire* for which the iron law and Marx's doctrine of the historically

⁹ Cf. Marx, *Das Kapital*, p. 134. Italics are mine. The term used by Marx which in the text is translated as "necessaries of life" is "*Lebensmittel*." the *Muret- Sanders Dictionary* (16 ed.) translates this term "articles of food, provisions, victuals, grub."

determined formation of wage rates claim validity witnessed a progressive, although sometimes temporarily interrupted, tendency for real wage rates to rise. The wage earners' standard of living rose to a height unprecedented in history and never thought of in earlier periods.

The labor unions pretend that nominal wage rates at least must always be raised in accordance with the changes occurring in the monetary unit's purchasing power in such a way as to secure to the wage earner the unabated enjoyment of the previous standard of living. They raise these claims also with regard to wartime conditions and the measures adopted for the financing of war expenditure. In their opinion even in wartime neither inflation nor the withholding of income taxes must affect the worker's take-home *real* wage rates. This doctrine tacitly implies the thesis of the *Communist Manifesto* that "the working men have no country" and have "nothing to lose but their chains"; consequently they are neutral in the wars waged by the bourgeois exploiters and do not care whether their nation conquers or is conquered. It is not the task of economics to scrutinize these statements. It only has to establish the fact that it does not matter what kind of justification is advanced in favor of the enforcement of wage rates higher than those the unhampered labor market would have determined. If as a result of such claims real wage rates are really raised above the height consonant with the marginal productivity of the various types of labor concerned, the unavoidable consequences must appear without any regard to the underlying philosophy.

In reviewing the whole history of mankind from the early beginnings of civilization up to our age, it makes sense to establish in general terms the fact that the productivity of human labor has been multiplied, for indeed the members of a civilized nation produce today much more than their ancestors did. But this concept of the productivity of labor in general is devoid of any praxeological or catallactic meaning and does not allow any expression in numerical terms. Still less is it permissible to refer to it in attempts to deal with the problems of the market.

Present-day labor-union doctrine operates with a concept of productivity of labor that is designedly constructed to provide an alleged ethical justification for syndicalistic ventures. It defines productivity either as the total market value in terms of money that is added to the products by the processing (either of one firm or by all the firms of a branch of industry), divided by the number of workers employed, or as output (of this firm or branch of industry) per manhour of work. Comparing the magnitudes computed in this way for the beginning of a definite period of time and for its end, they call the amount by which the figure computed for the later date exceeds that for the earlier date "increase in productivity of labor," and they pretend that it by rights belongs entirely to the workers. They demand that this whole amount should be added to the wage rates which the workers received at the beginning of the period. Confronted with these claims of the unions, the employers for the most part do not contest the underlying doctrine and do not question the concept of productivity of labor involved. They accept it implicitly in pointing out that wage rates have already risen to the full extent of the increase in productivity, computed according to this method, or that they have already risen beyond this limit.

Now this procedure of computing the productivity of the work performed by the labor force of a firm or an industry is entirely fallacious. One thousand men working forty hours a week in a modern American shoe factory turn out every month *m* pairs of shoes. One thousand men working with the traditional old-fashioned tools in small artisan shops somewhere in the backward countries of Asia produce over the same period of time, even when working much

longer than forty hours weekly, many fewer than m pairs. Between the United States and Asia the difference in productivity computed according to the methods of the union doctrine is enormous. It is certainly not due to any inherent virtues of the American worker. He is not more diligent, painstaking, skillful, or intelligent than the Asiatics. (We may even assume that many of those employed in a modern factory perform much simpler operations than those required from a man handling the old-fashioned tools.) The superiority of the American plant is entirely caused by the superiority of its equipment and the prudence of its entrepreneurial conduct. What prevents the businessmen of the backward countries from adopting the American methods of production is lack of capital accumulated, not any insufficiency on the part of their workers.

On the eve of the "Industrial Revolution," conditions in the West did not differ much from what they are today in the East. The radical change of conditions that bestowed on the masses of the West the present average standard of living (a high standard indeed when compared with precapitalistic or with Soviet conditions) was the effect of capital accumulation by saving and the wise investment of it by farsighted entrepreneurship. No technological improvement would have been possible if the additional capital goods required for the practical utilization of new inventions had not previously been made available by saving.

While the workers in their capacity as workers did not, and do not, contribute to the improvement of the apparatus of production, they are (in a market economy which is not sabotaged by government or union violence), both in their capacity as workers and in their capacity as consumers, the foremost beneficiaries of the ensuing betterment of conditions.

What initiates the chain of actions that results in an improvement of economic conditions is the accumulation of new capital through saving. These additional funds render the execution of projects possible which, for the lack of capital goods, could not have been executed previously. Embarking upon the realization of the new projects, the entrepreneurs compete on the market for the factors of production with all those already engaged in projects previously entered upon. In their attempts to secure the necessary quantity of raw materials and of manpower, they push up the prices of raw materials and wage rates. Thus the wage earners, already at the start of the process, reap a share of the benefits that the abstention from consumption on the part of the savers has begotten. In the farther course of the process they are again favored, now in their capacity as consumers, by the drop in prices that the increase in production tends to bring about.¹⁰

Economics describes the final outcome of this sequence of changes thus: An increase in capital invested results, with an unchanged number of people intent upon earning wages, in a rise of the marginal utility of labor and therefore of wage rates. What raises wage rates is an increase in capital exceeding the increase in population or, in other words, an increase in the per-head quota of capital invested. On the unhampered labor market, wage rates always tend toward the height at which they equal the marginal productivity of each kind of labor, that is the height that equals the value added to or subtracted from the value of the product by the employment or discharge of a man. At this rate all those in search of employment find jobs, and all those eager to employ workers can hire as many as they want. If wages are raised above this market rate, unemployment of a part of the potential labor force inevitably results. It does not matter what kind of doctrine is advanced in order to justify the enforcement of wage rates that exceed the potential market rates.

¹⁰ See above, pp. 296-297.

Wage rates are ultimately determined by the value which the wage earner's fellow citizens attach to his services and achievements. Labor is appraised like a commodity, not because the entrepreneurs and capitalists are hardhearted and callous, but because they are unconditionally subject to the supremacy of the consumers of which today the earners of wages and salaries form the immense majority. The consumers are not prepared to satisfy anybody's pretensions, presumptions, and self-conceit. They want to be served in the cheapest way.

A Comparison Between the Historical Explanation of Wage Rates and the Regression Theorem

It may be useful to compare the doctrine of Marxism and the Prussian Historical School, according to which wage rates are a historical datum and not a catallactic phenomenon, with the regression theorem of money's purchasing power.¹¹

The regression theorem establishes the fact that no good can be employed for the function of a medium of exchange which at the very beginning of its use for this purpose did not have exchange value on account of other employments. This fact does not substantially affect the daily determination of money's purchasing power as it is produced by the interplay of the supply of and the demand for money on the part of people intent upon keeping cash. The regression theorem does not assert that any actual exchange ratio between money on the one hand and commodities and services on the other hand is a historical datum not dependent on today's market situation. It merely explains how a new kind of media of exchange can come into use and remain in use. In this sense it says that there is a historical component in money's purchasing power.

It is quite different with the Marxian and Prussian theorems. As this doctrine sees it, the actual height of wage rates as it appears on the market is a historical datum. The valuations of the consumers who mediate are the buyers of labor and those of the wage earners, the sellers of labor, are of no avail. Wage rates are fixed by historical events of the past. They can neither rise above nor drop below this height. The fact that wage rates are higher in Switzerland than in India can be explained only by history, just as only history can explain why Napoleon I became a Frenchman and not an Italian, an emperor and not a Corsican lawyer. It is impossible, in the explanation of the discrepancy between the wage rates of shepherds or of bricklayers in these two countries, to resort to factors unconditionally in operation on every market. An explanation can only be provided by the history of these two nations.

¹¹ See above, pp. 408-410.