

HUMAN ACTION

by Ludwig von Mises, 4th edition (1996)

PART FOUR

CATALLACTICS OR ECONOMICS OF THE MARKET SOCIETY

XXI. WORK AND WAGES && 7-9

7. The Supply of Labor as Affected by the Disutility of Labor

The fundamental facts affecting the supply of labor are:

1. Every individual can expend only a limited quantity of labor.
2. This definite quantity cannot be performed at any time desired. The interpolation of periods of rest and recreation is indispensable.
3. Not every individual is able to perform any kind of labor. There are innate as well as acquired diversities in the abilities to perform certain types of work. The innate faculties required for certain types of work cannot be acquired by any training and schooling.
4. The capacity of work must be dealt with appropriately if it is not to deteriorate or to vanish altogether. Special care is needed to preserve a man's abilities--both the innate and the acquired--for such a period as the unavoidable decline of his vital forces may permit.
5. As work approaches the point at which the total amount of work a man can perform at the time is exhausted and the interpolation of a period of recreation is indispensable, fatigue impairs the quantity and the quality of the performance.¹
6. Men prefer the absence of labor, i.e., leisure, to labor, or as the economists put it: they attach disutility to labor.

The self-sufficient man who works in economic isolation for the direct satisfaction of his own needs only, stops working at the point at which he begins to value leisure, the absence of labor's disutility, more highly than the increment in satisfaction expected from working more. Having satisfied his most urgent needs, he considers the satisfaction of the still unsatisfied needs less desirable than the satisfaction of his striving after leisure.

The same is true for wage earners no less than for an isolated autarkic worker. They too are not prepared to work until they have expended the total capacity of work they are capable of expending. They too are eager to stop working at the point at which the mediate gratification expected no longer outweighs the disutility involved in the performance of additional work.

¹ Other fluctuations in the quantity and quality of the performance per unit of time, e.g., the lower efficiency in the period immediately following the resumption of work interrupted by recreation, are hardly of any importance for the supply of labor on the market.

Popular opinion, laboring under atavistic representations and blinded by Marxian slogans, was slow in grasping this fact. It clung and even today clings to the habit of looking at the wage earner as a bondsman, and at wages as the capitalist equivalent of the bare subsistence which the slave owner and the cattle owner must provide for their slaves and animals. In the eyes of this doctrine the wage earner is a man whom poverty has forced to submit to bondage. The vain formalism of the bourgeois lawyers, we are told, calls this subjection voluntary, and interprets the relation between employer and employee as a contract between two equal parties. In truth, however, the worker is not free; he acts under duress; he must submit to the yoke of virtual serfdom because no other choice is left to him, society's disinherited outcast. Even his apparent right to choose his master is spurious. The open or silent combination of the employers fixing the conditions of employment in a uniform way by and large makes this freedom illusory.

If one assumes that wages are merely the reimbursement of the expenses incurred by the worker in the preservation and reproduction of labor power or that their height is determined by tradition, it is quite consistent to consider every reduction in the obligations which the labor contract imposes on the worker as a unilateral gain for the worker. If the height of wage rates does not depend on the quantity and quality of the performance, if the employer does not pay to the worker the price the market assigns to his achievement, if the employer does not buy a definite quantity and quality of workmanship, but buys a bondsman, if wage rates are so low that for natural or "historical" reasons they cannot drop any further, one improves the wage earner's lot by forcibly shortening the length of the working day. Then it is permissible to look at the laws limiting the hours of work as tantamount to the decrees by means of which European governments of the seventeenth, eighteenth, and early nineteenth centuries step by step reduced and finally entirely abolished the amount of the unpaid statute labor (*corvée*) which the peasant bondsmen were liable to give to their lords, or to ordinances lightening the work to be done by convicts. Then the shortening of daily hours of work which the evolution of capitalist industrialism brought about is appraised as a victory of the exploited wage-slaves over the rugged selfishness of their tormentors. All laws imposing upon the employer the duty to make definite expenditures to the benefit of the employees are described as "social gains," i.e., as liberalities for the attainment of which the employees do not have to make any sacrifice.

It is generally assumed that the correctness of this doctrine is sufficiently demonstrated by the fact that the individual wage earner has only a negligible influence on the determination of the terms of the labor contract. The decisions concerning the length of the working day, work on Sundays and holidays, the time set for meals and many other things are made by the employers without asking the employees. The wage earner has no other choice than to yield to these orders or to starve.

The cardinal fallacy involved in this reasoning has already been pointed out in the preceding sections. The employers are not asking for labor in general, but for men who are fitted to perform the kind of labor they need. Just as an entrepreneur must choose for his plants the most suitable location, equipment, and raw materials, so he must hire the most efficient workers. He must arrange conditions of work in such a way as to make them appear attractive to those classes of workers he wants to employ. It is true that the individual worker has but little to say with regard to these arrangements. They are, like the height of wage rates itself, like commodity prices, and the shape of articles produced for mass consumption, the product of the interaction of innumerable people participating in the social process of the market. They are as such mass phenomena which are but little subject to modification on the part of a

single individual. However, it is a distortion of truth to assert that the individual voter's ballot is without influence because many thousands or even millions of votes are required to decide the issue and that those of people not attached to any party virtually do not matter. Even if one were to admit this thesis for the sake of argument, it is a non sequitur to infer that the substitution of totalitarian principles for democratic procedures would make the officeholders more genuine representatives of the people's will than election campaigns. The counterparts of these totalitarian fables in the field of the market's economic democracy are the assertions that the individual consumer is powerless against the suppliers and the individual employee against the employers. It is, of course, not an individual's taste, different from that of the many, that determines the features of articles of mass production designed for mass consumption, but the wishes and likes of the majority. It is not the individual job-seeker, but the masses of job-seekers whose conduct determines the terms of the labor contracts prevailing in definite areas or branches of industry. If it is customary to have lunch between noon and one o'clock, an individual worker who prefers to have it between two and three p.m. has little chance of having his wishes satisfied. However, the social pressure to which this solitary individual is subject in this case is not exercised by the employer, but by his fellow employees.

Employers in their search for suitable workers are forced to accommodate themselves even to serious and costly inconveniences if they cannot find those needed on other terms. In many countries, some of them stigmatized as socially backward by the champions of anticapitalism, employers must yield to various wishes of workers motivated by considerations of religious ritual or caste and status. They must arrange hours of work, holidays, and many technical problems according to such opinions, however burdensome such an adjustment may be. Whenever an employer asks for special performances which appear irksome or repulsive to the employees, he must pay extra for the excess of disutility the worker must expend.

The terms of the labor contract refer to all working conditions, not merely to the height of wage rates. Teamwork in factories and the interdependence of various enterprises make it impossible to deviate from the arrangements customary in the country or in the branch concerned and thus result in a unification and standardization of these arrangements. But this fact neither weakens nor eliminates the employee contribution in their setting up. For the individual workers they are, of course, an unalterable datum as the railroad's timetable is for the individual traveler. But nobody would contend that in determining the timetable the company does not bother about the wishes of the potential customers. Its intention is precisely to serve as many of them as possible.

The interpretation of the evolution of modern industrialism has been utterly vitiated by the anticapitalistic bias of governments and professedly prolabor writers and historians. The rise in real wage rates, the shortening of hours of work, the elimination of child labor, and the restriction of the labor of women, it is asserted, were the result of the interference of governments and labor unions and the pressure of public opinion aroused by humanitarian authors. But for this interference and pressure the entrepreneurs and capitalists would have retained for themselves all the advantages derived from the increase in capital investment and the consequent improvement in technological methods. The rise in the wage earners' standard of living was thus brought about at the expense of the "unearned" income of capitalists, entrepreneurs, and landowners. It is highly desirable to continue these policies, benefiting the many at the sole expense of a few selfish exploiters, and to reduce more and more the unfair take of the propertied classes.

The incorrectness of this interpretation is obvious. All measures restricting the supply of labor directly or indirectly burden the capitalists as far as they increase the marginal productivity of labor and reduce the marginal productivity of the material factors of production. As they restrict the supply of labor without reducing the supply of capital, they increase the portion allotted to the wage earners out of the total net product of the production effort. But this total net produce will drop too, and it depends on the specific data of each case whether the relatively greater quota of a smaller cake will be greater or smaller than the relatively smaller quota of a bigger cake. Profits and the rate of interest are not directly affected by the shortening of the total supply of labor. The prices of material factors of production drop and wage rates per unit of the individual worker's performance (not necessarily also per capita of the workers employed) rise. The prices of the products rise too. Whether all these changes result in an improvement or in a deterioration of the average wage earner's income is, as has been said, a question of fact in each instance.

But our assumption that such measures do not affect the supply of material factors of production is impermissible. The shortening of the hours of work, the restriction of night work and of the employment of certain classes of people impair the utilization of a part of the equipment available and are tantamount to a drop in the supply of capital. The resulting intensification of the scarcity of capital goods may entirely undo the potential rise in the marginal productivity of labor as against the marginal productivity of capital goods.

If concomitantly with the compulsory shortening of the hours of work the authorities or the unions forbid any corresponding reduction in wage rates which the state of the market would require or if previously prevailing institutions prevent such a reduction, the effects appear that every attempt to keep wage rates at a height above the potential market rate brings about: institutional unemployment.

The history of capitalism as it has operated in the last two hundred years in the realm of Western civilization is the record of a steady rise in the wage earners' standard of living. The inherent mark of capitalism is that it is mass production for mass consumption directed by the most energetic and far-sighted individuals, unflaggingly aiming at improvement. Its driving force is the profit-motive the instrumentality of which forces the businessman constantly to provide the consumers with more, better, and cheaper amenities. An excess of profits over losses can appear only in a progressing economy and only to the extent to which the masses' standard of living improves.² Thus capitalism is the system under which the keenest and most agile minds are driven to promote to the best of their abilities the welfare of the laggard many.

In the field of historical experience it is impossible to resort to measurement. As money is no yardstick of value and want-satisfaction, it cannot be applied for comparing the standard of living of people in various periods of time. However, all historians whose judgment is not muddled by romantic prepossessions agree that the evolution of capitalism has multiplied capital equipment on a scale which far exceeded the synchronous increase in population figures. Capital equipment both per capita of the population and per capita of those able to work is immensely larger today than fifty, a hundred, or two hundred years ago. Concomitantly there has been a tremendous increase in the quota which the wage earners receive out of the total amount of commodities produced, an amount which in itself is much bigger than in the past. The ensuing rise in the masses' standard of living is miraculous when compared with the conditions of ages gone by. In those merry old days even the wealthiest

² See above, pp. 294-300

people led an existence which must be called straitened when compared with the average standard of the American or Australian worker of our age. Capitalism, says Marx, unthinkingly repeating the fables of the eulogists of the Middle Ages, has an inevitable tendency to impoverish the workers more and more. The truth is that capitalism has poured a horn of plenty upon the masses of wage earners who frequently did all they could to sabotage the adoption of those innovations which render their life more agreeable. How uneasy an American worker would be if he were forced to live in the style of a medieval lord and to miss the plumbing facilities and the other gadgets he simply takes for granted!

The improvement in his material well-being has changed the worker's valuation of leisure. Better supplied with the amenities of life as he is, he sooner reaches the point at which he looks upon any further increment in the disutility of labor as an evil which is no longer outweighed by the expected further increment in labor's mediate gratification. He is eager to shorten the hours of daily work and to spare his wife and children the toil and trouble of gainful employment. It is not labor legislation and labor-union pressure that have shortened hours of work and withdrawn married women and children from the factories; it is capitalism, which has made the wage earner so prosperous that he is able to buy more leisure time for himself and his dependents. The nineteenth century's labor legislation by and large achieved nothing more than to provide a legal ratification for changes which the interplay of the market factors had brought about previously. As far as it sometimes went ahead of industrial evolution, the quick advance in wealth soon made things right again. As far as the allegedly prolabor laws decreed measures which were not merely the ratification of changes already effected or the anticipation of changes to be expected in the immediate future, they hurt the material interests of the workers.

The term "social gains" is utterly misleading. If the law forces workers who would prefer to work forty-eight hours a week not to give more than forty hours of work, or if it forces employers to incur certain expenses for the benefit of employees, it does not favor workers at the expense of employers. Whatever the provisions of a social security law may be, their incidence ultimately burdens the employee, not the employer. They affect the amount of take-home wages; if they raise the price the employer has to pay for a unit of performance above the potential market rate, they create institutional unemployment. Social security does not enjoin upon the employers the obligation to expend more in buying labor. It imposes upon the wage earners a restriction concerning the spending of their total income. It curtails the worker's freedom to arrange his household according to his own decisions.

Whether such a system of social security is a good or a bad policy is essentially a political problem. One may try to justify it by declaring that the wage earners lack the insight and the moral strength to provide spontaneously for their future. But then it is not easy to silence the voices of those who ask whether it is not paradoxical to entrust the nation's welfare to the decisions of voters whom the law itself considers incapable of managing their own affairs; whether it is not absurd to make those people supreme in the conduct of government who are manifestly in need of a guardians? It is no accident that Germany, the country that inaugurated the social security system, was the cradle of both varieties of modern disarrangement of democracy, the Marxian as well as the non-Marxian.

Remarks About the Popular Interpretation of the "Industrial Revolution"

It is generally asserted that the history of modern industrialism and especially the history of the British "Industrial Revolution" provide an empirical verification of the "realistic" or "institutional" doctrine and utterly explode the "abstract" dogmatism of the economists.³

The economists flatly deny that labor unions and government pro-labor legislation can and did lastingly benefit the whole class of wage earners and raise their standard of living. But the facts, say the anti-economists, have refuted these fallacies. The statesmen and legislators who enacted the factory acts displayed a better insight into reality than the economists. While laissez-faire philosophy, without pity and compassion, taught that the sufferings of the toiling masses are unavoidable, the common sense of laymen succeeded in quelling the worst excesses of profit-seeking business. The improvement in the conditions of the workers is entirely an achievement of governments and labor unions.

Such are the ideas permeating most of the historical studies dealing with the evolution of modern industrialism. The authors begin by sketching an idyllic image of conditions as they prevailed on the eve of the "Industrial Revolution." At that time, they tell us, things were, by and large, satisfactory. The peasants were happy. So also were the industrial workers under the domestic system. They worked in their own cottages and enjoyed a certain economic independence since they owned a garden plot and their tools. But then "the Industrial Revolution fell like a war or a plague" on these people.⁴ The factory system reduced the free worker to virtual slavery; it lowered his standard of living to the level of bare subsistence; in cramming women and children into the mills it destroyed family life and sapped the very foundations of society, morality, and public health. A small minority of ruthless exploiters had cleverly succeeded in imposing their yoke upon the immense majority.

The truth is that economic conditions were highly unsatisfactory on the eve of the Industrial Revolution. The traditional social system was not elastic enough to provide for the needs of a rapidly increasing population. Neither farming nor the guilds had any use for the additional hands. Business was imbued with the inherited spirit of privilege and exclusive monopoly; its institutional foundations were licenses and the grant of a patent of monopoly; its philosophy was restriction and the prohibition of competition both domestic and foreign. The number of people for whom there was no room left in the rigid system of paternalism and government tutelage of business grew rapidly. They were virtually outcasts. The apathetic majority of these wretched people lived from the crumbs that fell from the tables of the established castes. In the harvest season they earned a trifle by occasional help on farms; for the rest they depended upon private charity and communal poor relief. Thousands of the most vigorous youths of these strata were pressed into the service of the Royal Army and Navy; many of them were killed or maimed in action; many more perished ingloriously from the hardships of the barbarous discipline, from tropical diseases, or from syphilis.⁵ Other thousands, the

³ The attribution of the phrase "the Industrial Revolution" to the reigns of the two last Hanoverian Georges was the outcome of deliberate attempts to melodramatize economic history in order to fit it into the Procrustean Marxian schemes. The transition from medieval methods of production to those of the free enterprise system was a long process that started centuries before 1760 and, even in England, was not finished in 1830. Yet, it is true that England's industrial development was considerably accelerated in the second half of the eighteenth century. It is therefore permissible to use the term "Industrial Revolution" in the examination of the emotional connotations with which Fabianism, Marxism, the Historical School, and Institutionalism have loaded it.

⁴ J.L. Hammond and Barbara Hammond, *the Skilled Labourer 1760-1832* (2d ed. London, 1920), p. 4.

⁵ In the Seven Years' War, 1,512 British seamen were killed in battle while 133,708 died of disease or were missing. Cf. W.L. Dorn, *Competition for Empire 1740-1763* (New York, 1940), p. 114.

boldest and most ruthless of their class, infested the country as vagabonds, beggars, tramps, robbers, and prostitutes. The authorities did not know of any means to cope with these individuals other than the poorhouse and the workhouse. The support the government gave to the popular resentment against the introduction of new inventions and labor-saving devices made things quite hopeless.

The factory system developed in a continuous struggle against innumerable obstacles. It had to fight popular prejudice, old established customs, legally binding rules and regulations, the animosity of the authorities, the vested interests of privileged groups, the envy of the guilds. The capital equipment of the individual firms was insufficient, the provision of credit extremely difficult and costly. Technological and commercial experience was lacking. Most factory owners failed; comparatively few succeeded. Profits were sometimes considerable, but so were losses. It took many decades until the common practice of reinvesting the greater part of profits earned accumulated adequate capital for the conduct of affairs on a broader scale.

That the factories could thrive in spite of all these hindrances was due to two reasons. First there were the teachings of the new social philosophy expounded by the economists. They demolished the prestige of Mercantilism, paternalism, and restrictionism. They exploded the superstitious belief that labor-saving devices and processes cause unemployment and reduce all people to poverty and decay. The laissez-faire economists were the pioneers of the unprecedented technological achievements of the last two hundred years.

Then there was another factor that weakened the opposition to innovations. The factories freed the authorities and the ruling landed aristocracy from an embarrassing problem that had grown too large for them. They provided sustenance for the masses of paupers. They emptied the poor houses, the workhouses, and the prisons. They converted starving beggars into self-supporting breadwinners.

The factory owners did not have the power to compel anybody to take a factory job. They could only hire people who were ready to work for the wages offered to them. Low as these wage rates were, they were nonetheless much more than these paupers could earn in any other field open to them. It is a distortion of facts to say that the factories carried off the housewives from the nurseries and the kitchens and the children from their play. These women had nothing to cook with and to feed their children. These children were destitute and starving. Their only refuge was the factory. It saved them, in the strict sense of the term, from death by starvation.

It is deplorable that such conditions existed. But if one wants to blame those responsible, one must not blame the factory owners who--driven by selfishness, of course, and not by "altruism"--did all they could to eradicate the evils. What had caused these evils was the economic order of the precapitalistic era, the order of the "good old days."

In the first decades of the Industrial Revolution the standard of living of the factory workers was shockingly bad when compared with the contemporary conditions of the upper classes and with the present conditions of the industrial masses. Hours of work were long, the sanitary conditions in the workshops deplorable. The individual's capacity to work was used up rapidly. But the fact remains that for the surplus population which the enclosure movement had reduced to dire wretchedness and for which there was literally no room left in the frame

of the prevailing system of production, work in the factories was salvation. These people thronged into the plants for no reason other than the urge to improve their standard of living.

The laissez-faire ideology and its offshoot, the "Industrial Revolution," blasted the ideological and institutional barriers to progress and welfare. They demolished the social order in which a constantly increasing number of people were doomed to abject need and destitution. The processing trades of earlier ages had almost exclusively catered to the wants of the well-to-do. Their expansion was limited by the amount of luxuries the wealthier strata of the population could afford. Those not engaged in the production of primary commodities could earn a living only as far as the upper classes were disposed to utilize their skill and services. But now a different principle came into operation. The factory system inaugurated a new mode of marketing as well as of production. Its characteristic feature was that the manufactures were not designed for the consumption of a few well-to-do only, but for the consumption of those who had hitherto played but a negligible role as consumers. Cheap things for the many, was the objective of the factory system. The classical factory of the early days of the Industrial Revolution was the cotton mill. Now, the cotton goods it turned out were not something the rich were asking for. These wealthy people clung to silk, linen, and cambric. Whenever the factory with its methods of mass production by means of power-driven machines invaded a new branch of production, it started with the production of cheap goods for the broad masses. The factories turned to the production of more refined and therefore more expensive goods only at a later stage, when the unprecedented improvement in the masses' standard of living which they caused made it profitable to apply the methods of mass production also to these better articles. Thus, for instance, the factory-made shoe was for many years bought only by the "proletarians" while the wealthier consumers continued to patronize the custom shoemakers. The much talked about sweatshops did not produce clothes for the rich, but for people in modest circumstances. The fashionable ladies and gentlemen preferred and still do prefer custom-made frocks and suits.

The outstanding fact about the Industrial Revolution is that it opened an age of mass production for the needs of the masses. The wage earners are no longer people toiling merely for other people's well-being. They themselves are the main consumers of the products the factories turn out. Big business depends upon mass consumption. There is, in present-day America, not a single branch of big business that would not cater to the needs of the masses. The very principle of capitalist entrepreneurship is to provide for the common man. In his capacity as consumer the common man is the sovereign whose buying or abstention from buying decides the fate of entrepreneurial activities. There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for.

Blinded by their prejudices, many historians and writers have entirely failed to recognize this fundamental fact. As they see it, wage earners toil for the benefit of other people. They never raise the question who these "other" people are.

Mr. and Mrs. Hammond tell us that the workers were happier in 1760 than they were in 1830.⁶ This is an arbitrary value judgment. There is no means of comparing and measuring the happiness of different people and of the same people at different times. We may agree for the sake of argument that an individual who was born in 1740 was happier in 1760 than in 1830. But let us not forget that in 1770 (according to the estimate of Arthur Young) England

⁶ J.L. Hammond and Barbara Hammond, *loc. cit.*

had 8.5 million inhabitants, while in 1831 (according to the census) the figure was 16 million.⁷ This conspicuous increase was mainly conditioned by the Industrial Revolution. With regard to these additional Englishmen the assertion of the eminent historians can only be approved by those who endorse the melancholy verses of Sophocles: "Not to be born is, beyond all question, the best; but when a man has once seen the light of day, this is next best, that speedily he should return to that place whence he came."

The early industrialists were for the most part men who had their origin in the same social strata from which their workers came. They lived very modestly, spent only a fraction of their earnings for their households and put the rest back into the business. But as the entrepreneurs grew richer, the sons of successful businessmen began to intrude into the circles of the ruling class. The highborn gentlemen envied the wealth of the parvenus and resented their sympathies with the reform movement. They hit back by investigating the material and moral conditions of the factory hands and enacting factory legislation.

The history of capitalism in Great Britain as well as in all other capitalist countries is a record of an unceasing tendency toward the improvement in the wage earners' standard of living. This evolution coincided with the development of prolabor legislation and the spread of labor unionism on the one hand and with the increase in the marginal productivity of labor on the other hand. The economists assert that the improvement in the workers' material conditions is due to the increase in the per capita quota of capital invested and the technological achievements which the employment of this additional capital brought about. As far as labor legislation and union pressure did not exceed the limits of what the workers would have got without them as a necessary consequence of the acceleration of capital accumulation as compared with population, they were superfluous. As far as they exceeded these limits, they were harmful to the interests of the masses. They delayed the accumulation of capital thus slowing down the tendency toward a rise in the marginal productivity of labor and in wage rates. They conferred privileges on some groups of wage earners at the expense of other groups. They created mass unemployment and decreased the amount of products available for the workers in their capacity as consumers.

The apologists of government interference with business and of labor unionism ascribe all the improvements in the conditions of the workers to the actions of governments and unions. Except for them, they contend, the workers' standard of living would be no higher today than it was in the early years of the factory system.

It is obvious that this controversy cannot be settled by appeal to historical experience. With regard to the establishment of the facts there is no disagreement between the two groups. Their antagonism concerns the interpretation of events, and this interpretation must be guided by the theory chosen. The epistemological and logical considerations which determine the correctness or incorrectness of a theory are logically and temporally antecedent to the elucidation of the historical problem involved. The historical facts as such neither prove nor disprove any theory. They need to be interpreted in the light of theoretical insight.

Most of the authors who wrote the history of the conditions of labor under capitalism were ignorant of economics and boasted of this ignorance. However, this contempt for sound economic reasoning did not mean that they approached the topic of their studies without prepossession and without bias in favor of any theory. They were guided by the popular

⁷ F.C. Dietz, *An Economic History of England* (New York, 1942), pp. 279 and 392.

fallacies concerning governmental omnipotence and the alleged blessings of labor unionism. It is beyond question that the Webbs as well as Lujo Bretano and a host of minor authors were at the very start of their studies imbued with a fanatical dislike of the market economy and an enthusiastic endorsement of the doctrines of socialism and interventionism. They were certainly honest and sincere in their convictions and tried to do their best. Their candor and probity may exonerate them as individuals; it does not exonerate them as historians. However pure the intentions of a historian may be, there is no excuse for his recourse to fallacious doctrines. The first duty of a historian is to examine with the utmost care all the doctrines to which he resorts in dealing with the subject matter of his work. If he neglects to do this and naively espouses the garbled and confused ideas of popular opinion, he is not a historian but an apologist and propagandist.

The antagonism between the two opposite points of view is not merely a historical problem. It refers no less to the most burning problems of the present day. It is the matter of controversy in what is called in present-day America the problem of industrial relations.

Let us stress one aspect of the matter only. Vast areas--Eastern Asia, the East Indies, Southern and Southeastern Europe, Latin America--are only superficially affected by modern capitalism. Conditions in these countries by and large do not differ from those of England on the eve of the "Industrial Revolution." There are millions of people for whom there is no secure place left in the traditional economic setting. The fate of these wretched masses can be improved only by industrialization. What they need most is entrepreneurs and capitalists. As their own foolish policies have deprived these nations of the further enjoyment of the assistance imported foreign capital hitherto gave them, they must embark upon domestic capital accumulation. They must go through all the stages through which the evolution of Western industrialism had to pass. They must start with comparatively low wage rates and long hours of work. But, deluded by the doctrines prevailing in present-day Western Europe and North America, their statesmen think that they can proceed in a different way. They encourage labor-union pressure and alleged prolabor legislation. Their interventionist radicalism nips in the bud all attempts to create domestic industries. Their stubborn dogmatism spells the doom of the Indian and Chinese coolies, the Mexican peons, and millions of other peoples, desperately struggling on the verge of starvation.

8. Wage Rates as Affected by the Vicissitudes of the Market

Labor is a factor of production. The price which the seller of labor can obtain on the market depends on the data of the market.

The quantity and the quality of labor which an individual is fitted to deliver is determined by his innate and acquired characteristics. The innate abilities cannot be altered by any purposeful conduct. They are the individual's heritage with which his ancestors have endowed him on the day of his birth. He can bestow care upon these gifts and cultivate his talents, he can keep them from prematurely withering away; but he can never cross the boundaries which nature has drawn to his forces and abilities. He can display more or less skill in his endeavors to sell his capacity to work at the highest price which is obtainable on the market under prevailing conditions; but he cannot change his nature in order to adjust it better to the state of the market data. It is good luck for him if market conditions are such that a kind of labor which he is able to perform is lavishly remunerated; it is chance, not personal merit if his innate talents are highly appreciated by his fellow men. Miss Greta Garbo, if she had lived a hundred years earlier, would probably have earned much less than she did in this age of

moving pictures. As far as her innate talents are concerned, she is in a position similar to that of a farmer whose farm can be sold at a high price because the expansion of a neighboring city converted it into urban soil.

Within the rigid limits drawn by his innate abilities, a man's capacity to work can be perfected by training for the accomplishment of definite tasks. The individual--or his parents--incurs expenses for a training the fruit of which consists in the acquisition of the ability to perform certain kinds of work. Such schooling and training intensify a man's one-sidedness; they make him a specialist. Every special training enhances the specific character of a man's capacity to work. The toil and trouble, the disutility of the efforts to which an individual must submit in order to acquire these special abilities, the loss of potential earnings during the training period, and the money expenditure required are laid out in the expectation that the later increment in earnings will compensate for them. These expenses are an investment and as such speculative. It depends on the future state of the market whether or not they will pay. In training himself the worker becomes a speculator and entrepreneur. The future state of the market will determine whether profit or loss results from his investment.

Thus the wage earner has vested interests in a twofold sense, as a man with definite innate qualities and as a man who has acquired definite special skills.

The wage earner sells his labor on the market at the price which the market allows for it today. In the imaginary construction of the evenly rotating economy the sum of the prices which the entrepreneur must expend for all the complementary factors of production together must equal--due consideration being made for time preference--the price of the product. In the changing economy changes in the market structure may bring about differences between these two magnitudes. The ensuing profits and losses do not affect the wage earner. Their incidence falls upon the employer alone. The uncertainty of the future affects the employee only as far as the following items are concerned:

1. The expenses incurred in time, disutility, and money for training.
2. The expenses incurred in moving to a definite place of work.
3. In case of a labor contract stipulated for a definite period of time, changes in the price of the specific type of labor occurring in the meantime and changes in the employer's solvency.

9. The Labor Market

Wages are the prices paid for the factor of production, human labor. As is the case with all the other prices of complementary factors of production their height is ultimately determined by the prices of the products as they are expected at the instant the labor is sold and bought. It does not matter whether he who performs the labor sells his services to an employer who combines them with the material factors production and with the services of other people or whether he himself embarks upon his own account and peril upon these acts of combination. The final price of labor of the same quality is at any rate the same in the whole market system. Wage rates are always equal to the price of the full produce of labor. The popular slogan "the worker's right to the full produce of labor" was an absurd formulation of the claim that the consumers' goods should be distributed exclusively among the workers and nothing should be left to the entrepreneurs and the owners of the material factors of production. From no point

of view whatever can artifacts be considered as the products of mere labor. They are the yield of a purposive combination of labor and of material factors of production.

In the changing economy there prevails a tendency for market wage rates to adjust themselves precisely to the state of the final wage rates. This adjustment is a time-absorbing process. The length of the period of adjustment depends on the time required for the training for new jobs and for the removal of workers to new places of residence. It depends furthermore on subjective factors, as for instance the workers' familiarity with the conditions and prospects of the labor market. The adjustment is a speculative venture as far as the training for new jobs and the change of residence involve costs which are expended only if one believes that the future state of the labor market will make them appear profitable.

With regard to all these things there is nothing that is peculiar to labor, wages, and the labor market. What gives a particular feature to the labor market is that the worker is not merely the purveyor of the factor of production labor, but also a human being and that it is impossible to sever the man from his performance. Reference to this fact has been mostly used for extravagant utterances and for a vain critique of the economic teachings concerning wage rates. However, these absurdities must not prevent economics from paying adequate attention to this primordial fact.

For the worker it is a matter of consequence what kind of labor he performs among the various kinds he is able to perform, where he performs it, and under what particular conditions and circumstances. An unaffected observer may consider empty or even ridiculous prejudices the ideas and feelings that actuate a worker to prefer certain jobs, certain places of work, and certain conditions of labor to others. However, such academic judgments of unaffected censors are of no avail. For an economic treatment of the problems involved there is nothing especially remarkable in the fact that the worker looks upon his toil and trouble not only from the point of view of the disutility of labor and its mediate gratification, but also takes into account whether the special conditions and circumstances of its performance interfere with his enjoyment of life and to what extent. The fact that a worker is ready to forego the chance to increase his money earnings by migrating to a place he considers less desirable and prefers to remain in his native place or country is not more remarkable than the fact that a wealthy gentleman of no occupation prefers the more expensive life in the capital to the cheaper life in a small town. The worker and the consumer are the same person; it is merely economic reasoning that integrates the social functions and splits up this unity into two schemes. Men cannot sever their decisions concerning the utilization of their working power from those concerning the enjoyment of their earnings.

Descent, language, education, religion, mentality, family bonds, and social environment tie the worker in such a way that he does not choose the place and the branch of his work merely with regard to the height of wage rates.

We may call that height of wage rates for definite types of labor which would prevail on the market if the workers did not discriminate between various places and, wage rates being equal, did not discriminate between various places and, wage rates being equal, did not prefer one working place to another, standard wage rates (S). If, however, the wage earners, out of the above-mentioned considerations, value differently work in different places, the height of market wage rates (M) can permanently deviate from the standard rates. We may call the maximum difference between the market rate and the standard rate which does not yet result in the migration of workers from the places of lower market wage rates to those of higher

market wage rates the attachment component (A). The attachment component of a definite geographical place or area is either positive or negative.

We must furthermore take into account that the various places and areas differ with regard to provision with consumers' goods as far as transportation costs (in the broadest sense of the term) are concerned. These costs are lower in some areas, higher in other areas. Then there are differences with regard to the physical input required for the attainment of the same amount of physical satisfaction. In some places a man must expend more in order to attain the same degree of want-satisfaction which, apart from the circumstances determining the amount of the attachment component, he could attain elsewhere more cheaply. On the other hand, a man can in some places avoid certain expenses without any impairment of his want-satisfaction while renunciation of these expenses would curtail his satisfaction in other places. We may call the expenses which a worker must incur in certain places in order to attain in this sense the same degree of want-satisfaction, or which he can spare without curtailing his want-satisfaction, the cost component (C). The cost component of a definite geographical place or area is either positive or negative.

If we assume that there are no institutional barriers preventing or penalizing the transfer of capital goods, workers, and commodities from one place or area to another and that the workers are indifferent with regard to their dwelling and working places, there prevails a tendency toward a distribution of population over the earth's surface in accordance with the physical productivity of the primary natural factors of production and the immobilization of inconvertible factors of production as affected in the past. There is, if we disregard the cost component, a tendency toward an equalization of wage rates for the same type of work all over the earth.

It would be permissible to call an area comparatively overpopulated if in it market wage rates plus the (positive or negative) cost component are lower than the standard rates, and comparatively underpopulated if in it market wage rates plus the (positive or negative) cost component are higher than the standard rates. But it is not expedient to resort to such a definition of the terms involved. It does not help us in explaining the real conditions of the formation of wage rates and the conduct of wage earners. It is more expedient to choose another definition. We may call an area comparatively overpopulated if in it market wage rates are lower than the standard rates plus both the (positive or negative) attachment component and the (positive or negative) cost component, that is where $M < (S + A + C)$. Accordingly an area is to be called comparatively underpopulated in which $M > (S + A + C)$. In the absence of institutional migration barriers workers move from the comparatively overpopulated areas to the comparatively underpopulated until everywhere $M = S + A + C$.

The same is true, *mutatis mutandis*, for the migration of individuals working on their own account and selling their labor in disposing of its products or in rendering personal services.

The concepts of the attachment component and the cost component apply in the same way to shifting from one branch of business or occupation to another.

It is hardly necessary to observe that the migrations which these theorems describe come to pass only in so far as there are no institutional barriers to the mobility of capital, labor, and commodities. In this age aiming at the disintegration of the international division of labor and at each sovereign nation's economic self-sufficiency, the tendencies they describe are fully operative only within each nation's boundaries.

The Work of Animals and of Slaves

For man, animals are a material factor of production. It may be that one day a change in moral sentiments will induce people to treat animals more gently. Yet, as far as men do not leave the animals alone and let them go their way, they will always deal with them as mere objects of their own acting. Social cooperation can exist only between human beings because only these are able to attain insight into the meaning and the advantages of the division of labor and of peaceful cooperation.

Man subdues the animal and integrates it into his scheme of action as a material thing. In taming, domesticating, and training animals man often displays appreciation for the creature's psychological peculiarities; he appeals, as it were, to its soul. But even then the gulf that separates man from animal remains unbridgeable. An animal can never get anything else than satisfaction of its appetites for food and sex and adequate protection against injury resulting from environmental factors. Animals are bestial and inhuman precisely because they are such as the iron law of wages imagined workers to be. As human civilization would never have emerged if men were exclusively dedicated to feeding and mating, so animals can neither consort in social bonds nor participate in human society.

People have tried to look upon fellow men as they look upon animals and to deal with them accordingly. They have used whips to compel galley slaves and barge haulers to work like capstan-horses. However, experience has shown that these methods of unbridled brutalization render very unsatisfactory results. Even the crudest and dullest people achieve more when working of their own accord than under the fear of the whip.

Primitive man makes no distinction between his property in women, children, and slaves on the one hand and his property in cattle and inanimate things on the other. But as soon as he begins to expect from his slaver services other than such as can also be rendered by draft and pack animals, he is forced to loosen their chains. He must try to substitute the incentive of self-interest for the incentive of mere fear; he must try to bind the slave to himself by human feelings. If the slave is no longer prevented from fleeing exclusively by being chained and watched and no longer forced to work exclusively under the threat of being whipped, the relation between master and slave is transformed into a social nexus. The slave may, especially if the memory of happier days of freedom is still fresh, bemoan his misfortune and hanker after liberation. But he puts up with what seems to be an inevitable state of affairs and accommodates himself to his fate in such a way as to make it as bearable as possible. The slave becomes intent upon satisfying his master through application and carrying out the tasks entrusted to him; the master becomes intent upon rousing the slave's zeal and loyalty through reasonable treatment. There develop between lord and drudge familiar relations which can properly be called friendship.

Perhaps the eulogists of slavery were not entirely wrong when they asserted that many slaves were satisfied with their station and did not aim at changing it. There are perhaps individuals, groups of individuals, and even whole peoples and races who enjoy the safety and security provided by bondage; who, insensible of humiliation and mortification, are glad to pay with a moderate amount of labor for the privilege of sharing in the amenities of a well-to-do household; and in whose eyes subjection to the whims and bad tempers of a master is only a minor evil or no evil at all.

Of course, the conditions under which the servile workers toiled in big farms and plantations, in mines, in workshops, and galleys were very different from the idyllically described gay life of domestic valets, chambermaids, cooks, and nurses and from the conditions of unfree laborers, dairymaids, herdsmen, and shepherds of small farming. No apologist of slavery was bold enough to glorify the lot of the Roman agricultural slaves, chained and crammed together in the *ergastulum*, or of the Negroes of the American cotton and sugar plantations.⁸

The abolition of slavery and serfdom is to be attributed neither to the teachings of theologians and moralists nor to weakness or generosity on the part of the masters. There were among the teachers of religion and ethics as many eloquent defenders of bondage as opponents.⁹ Servile labor disappeared because it could not stand the competition of free labor; its unprofitability sealed its doom in the market economy.

The price paid for the purchase of a slave is determined by the net yield expected from his employment (both as a worker and as a progenitor of other slaves) just as the price paid for a cow is determined by the net yield expected from its utilization. The owner of a slave does not pocket a specific revenue. For him there is no "exploitation" boon derived from the fact that the slave's work is not remunerated and that the potential market price of the services he renders is possibly greater than the cost of feeding, sheltering, and guarding him. He who buys a slave must in the price paid make good for these economies as far as they may be expected; he pays for them in full, due allowance being made for time preference. Whether the proprietor employs the slave in his own household or enterprise or rents his services to other people, he does not enjoy any specific advantage from the existence of the institution of slavery. The specific boon goes totally to the slave-hunter, i.e., the man who deprives free men of their liberty and transforms them into slaves. But, of course, the profitability of the slave-hunter's business depends upon the height of the prices buyers are ready to pay for the acquisition of slaves. If these prices drop below the operation and transportation costs incurred in the business of slave-hunting, business no longer pays and must be discontinued.

Now, at no time and at no place was it possible for enterprises employing servile labor to compete on the market with enterprises employing free labor. Servile labor could always be utilized only where it did not have to meet the competition of free labor.

If one treats men like cattle, one cannot squeeze out of them more than cattle-like performances. But it then becomes significant that man is physically weaker than oxen and horses, and that feeding and guarding a slave is, in proportion to the performance to be reaped, more expensive than feeding and guarding cattle. When treated as a chattel, man renders a smaller yield per unit of cost expended for current sustenance and guarding than domestic animals. If one asks from an unfree laborer human performances, one must provide him with specifically human inducements. If the employer aims at obtaining products which in quality and quantity excel those whose production can be extorted by the whip, he must interest the toiler in the yield of his contribution. Instead of punishing laziness and sloth, he must reward diligence, skill, and eagerness. But whatever he may try in this respect, he will never obtain from a bonded worker, i.e., a worker who does not reap the full market price of his contribution, a performance equal to that rendered by a freeman, i.e., a man hired on the

⁸ Margaret Mitchell, who in her popular novel *Gone With the Wind* (New York, 1936) eulogizes the South's slavery system, is cautious enough not to enter into particulars concerning the plantation hands, and prefers to dwell upon the conditions of domestic servants, who even in her account appear as an elite of their caste.

⁹ Cf. about the American proslavery doctrine Charles and Mary Beard. *The Rise of American Civilization* (1944), I, 703-710; and c.e. Merriam, *A History of American Political Theories* (New York, 1924), pp. 227-251.

unhampered labor market. The upper limit beyond which it is impossible to lift the quality and quantity of the products and services rendered by slave and serf labor is far below the standards of free labor. In the production of articles of superior quality an enterprise employing the apparently cheap labor of unfree workers can never stand the competition of enterprises employing free labor. It is this fact that has made all systems of compulsory labor disappear.

Social institutions once made whole areas or branches of production reservations exclusively kept for the occupation of unfree labor and sheltered against any competition on the part of entrepreneurs employing free men. Slavery and serfdom thus became essential features of a rigid caste system that could be neither removed nor modified by the actions of individuals. Wherever conditions were different, the slave owners themselves resorted to measures which were bound to abolish, step by step, the whole system of unfree labor. It was not humanitarian feelings and clemency that induced the callous and pitiless slaveholders of ancient Rome to loosen the fetters of their slaves, but the urge to derive the best possible gain from their property. They abandoned the system of centralized big-scale management of their vast landholdings, the *latifundia*, and transformed the slaves into virtual tenants cultivating their tenements on their own account and owing to the landlord merely either a lease or a share of the yield. In the processing trades and in commerce the slaves became entrepreneurs and their funds, the *peculium*, their legal quasi-property. Slaves were manumitted in large numbers because the freedman rendered to the former owner, the *patronus*, services more valuable than those to be expected from a slave. For the manumission was not an act of grace and a gratuitous gift on the part of the owner. It was a credit operation, a purchase of freedom on the installment plan, as it were. The freedman was bound to render the former owner for many years or even for a lifetime definite payments and services. The *patronus* moreover had special rights of inheritance to the estate of the deceased freedman.¹⁰

With the disappearance of the plants and farms employing unfree laborers, bondage ceased to be a system of production and became a political privilege of an aristocratic caste. The overlords were entitled to definite tributes in kind or money and to definite services on the part of their subordinates; moreover their serfs' children were obliged to serve them as servants or military retinue for a definite length of time. But the underprivileged peasants and artisans operated their farms and shops on their own account and peril. Only when their processes of production were accomplished did the lord step in and claim a part of the proceeds.

Later, from the sixteenth century on, people again began to employ unfree workers in agricultural and even sometimes in industrial big-scale production. In the American colonies Negro slavery became the standard method of the plantations. In Eastern Europe--in Northeastern Germany, in Bohemia and its annexes Moravia and Silesia, in Poland, in the Baltic countries, in Russia, and also in Hungary and its annexes--big-scale farming was built upon the unpaid statute labor of serfs. Both these systems of unfree labor were sheltered by political institutions against the competition of enterprises employing free workers. In the plantation colonies the high costs of immigration and the lack of sufficient legal and judicial protection of the individual against the arbitrariness of government officers and the planter aristocracy prevented the emergence of a sufficient supply of free labor and the development of a class of independent farmers. In Eastern Europe the caste system made it impossible for outsiders to enter the field of agricultural production. Big-scale farming was reserved to

¹⁰ Cf. Ciccotti, *Lew Declin de l'esclavage antique* (Paris, 1910), pp. 292 ff.; Salvioli, *Le Capitalisme dans de monde antique* (Paris, 1906), pp. 141 ff.; Cairnes, *the Slave Power* (London, 1862), p. 234.

members of the nobility. Small holdings were reserved to unfree bondsmen. Yet the fact that the enterprises employing unfree labor would not be able to stand the competition of enterprises employing free labor was not contested by anybody. On this point the eighteenth and early nineteenth-century authors on agricultural management were no less unanimous than the writers of ancient Rome on farm problems. But the abolition of slavery and serfdom could not be effected by the free play of the market system, as political institutions had withdrawn the estates of the nobility and the plantations from the supremacy of the market. Slavery and serfdom were abolished by political action dictated by the spirit of the much-abused *laissez faire*, *laissez passer* ideology.

Today mankind is again faced with endeavors to substitute compulsory labor for the labor of the freeman selling his capacity to work as a "commodity" on the market. Of course, people believe that there is an essential difference between the tasks incumbent upon the comrades of the socialist commonwealth and those incumbent upon slaves or serfs. The slaves and serfs, they say, toiled for the benefit of an exploiting lord. But in a socialist system the produce of labor goes to society of which the toiler himself is a part; here the worker works for himself, as it were. What this reasoning overlooks is that the identification of the individual comrades and the totality of all comrades with the collective entity pocketing the produce of all work is merely fictitious. Whether the ends which the community's officeholders are aiming at agree or disagree with the wishes and desires of the various comrades, is of minor importance. The main thing is that the individual's contribution to the collective entity's wealth is not required in the shape of wages determined by the market. A socialist commonwealth lacks any method of economic calculation; it cannot determine separately what quotas of the total amount of goods produced are to be assigned to the various complementary factors of production. As it cannot ascertain the magnitude of the contribution society owes to the various individuals' efforts, it cannot remunerate the workers according to the value of their performance.

In order to distinguish free labor from compulsory labor no metaphysical subtleties concerning the essence of freedom and compulsion are required. We may call free labor that kind of extroversive, not immediately gratifying labor that a man performs either for the direct satisfaction of his own wants or for their indirect satisfaction to be reaped by expending the price earned by its sale on the market. Compulsory labor is labor performed under the pressure of other incentives. If somebody were to take umbrage at this terminology because the employment of words like freedom and compulsion may arouse an association of ideas injurious to a dispassionate treatment of the problems involved, one could as well choose other terms. We may substitute the expression *F* labor for the term free labor and the term *C* labor for the term compulsory labor. The crucial problem cannot be affected by the choice of the terms. What alone matters is this: What kind of inducement can spur a man to submit to the disutility of labor if his own want-satisfaction neither directly nor--to any appreciable extent--indirectly depends on the quantity and quality of *his* performance?

Let us assume for the sake of argument that many workers, perhaps even most of them, will of their own accord dutifully take pains for the best possible fulfillment of the tasks assigned to them by their superiors. (We may disregard the fact that the determination of the task to be imposed upon the various individuals would confront a socialist commonwealth with insoluble problems.) But how to deal with those sluggish and careless in the discharge of the imposed duties? There is no other way left than to punish them. In their superiors must be vested the authority to establish the offense, to give judgment on its subjective reasons, and to mete out punishment accordingly. A hegemonic bond is substituted for the contractual bond.

The worker becomes subject to the discretionary power of his superiors, he is personally subordinate to his chief's disciplinary power.

In the market economy the worker sells his services as other people sell their commodities. The employer is not the employee's lord. He is simply the buyer of services which he must purchase at their market price. Of course, like every other buyer an employer too can take liberties. But if he resorts to arbitrariness in hiring or discharging workers, he must foot the bill. An employer or an employee entrusted with the management of a department of an enterprise is free to discriminate in hiring workers, to fire them arbitrarily, or to cut down their wages below the market rate. But in indulging in such arbitrary acts he jeopardizes the profitability of his enterprise or his department and thereby impairs his own income and his position in the economic system. In the market economy such whims bring their own punishment. The only real and effective protection of the wage earner in the market economy is provided by the play of the factors determining the formation of prices. The market makes the worker independent of arbitrary discretion on the part of the employer and his aides. The workers are subject only to the supremacy of the consumers as their employers are too. In determining, by buying or abstention from buying, the prices of products and the employment of factors of production, consumers assign to each kind of labor its market price.

What makes the worker a free man is precisely the fact that the employer, under the pressure of the market's price structure, considers labor a commodity, an instrument of earning profits. The employee is in the eyes of the employer merely a man who for a consideration in money helps him to make money. The employer pays for services rendered and the employee performs in order to earn wages. There is in this relation between employer and employee no question of favor or disfavor. The hired man does not owe the employer gratitude; he owes him a definite quantity of work of a definite kind and quality.

That is why in the market economy the employer can do without the power to punish the employee. All nonmarket systems of production must give to those in control the power to spur on the slow worker to more zeal and application. As imprisonment withdraws the worker from his job or at least reduces considerably the value of his contribution, corporal punishment has always been the classical means of keeping slaves and serfs to their work. With the abolition of unfree labor one could dispense with the whip as a stimulus. Flogging was the symbol of bond labor. Members of a market society consider corporal punishment inhuman and humiliating to such a degree that it has been abolished also in the schools, in the penal code, and in military discipline.

He who believes that a socialist commonwealth could do without compulsion and coercion against slothful workers because everyone will spontaneously do his duty, falls prey to the illusions implied in the doctrine of anarchism.