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WHAT PRICE PROFITS ?

by MAX WEISS

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I. WAGES DO NOT DETERMINE PRICES

1. Which Went Up First?

The big corporations oppose all demands for higher wages by telling us that wage increases lead to price increases.

But, in spite of their skillful propaganda, *the fact is that higher wages do not cause higher prices.*

This can be shown quite simply.

How do the corporations and trusts try to prove that wage increases cause price increases? They say: "Look at the facts. Before the war broke out in Europe in September, 1939, prices were more or less in line with wages. After the war broke out, especially after Pearl Harbor, wages went up. As soon as this happened prices began to climb."

Now it is true that during the war period both wages and prices went up.

But the important question is: *Which went up first?*

This is not at all the old question: which-came-first-the-chicken-or-the-egg?

Suppose wages went up first and then prices. In that case some kind of argument might be made out to "prove" that prices went up *because* wages went up. Even so, this would not be a very strong arument. If one thing happens *after* something else, this is no proof that it happened *because* of something else. After the rooster awakes and crows in the morning, the sun begins to rise. Does this mean that the sun rises *because* the rooster wakes up and crows?

The same thing is true of wages and prices during the war.

Even if we assume that first wages increased and that prices only went up afterwards, this still would not prove that the wage increases *caused* the price increases. Perhaps the prices went up for a different reason—as they did.

But the actual fact is that wages did not go up before prices. The opposite happened. First prices began to move up. Only *after* this happened, did the trade unions begin to ask for wage increases.

When the war broke out in Europe in September, 1939, all workers in the main industries were working on the basis of wage scales established *before* the outbreak of the war. These wage scales did not change during the last four months of 1939. In spite of this, food prices began to advance from the very moment the war broke out. There was a slow, steady climb in food prices during September, October, November and December, 1939. But no wage increases.

During 1940, food prices continued to move upwards. Still no wage increases. In the summer of 1940 the prices of all goods purchased by wage earners started to go higher than they had been during the years from 1935 to 1939. Still no increases in wage scales. As a matter of fact, the labor movement was concerned during 1940 not so much with wage scales as with the fact that there were still some ten million unemployed workers. There were no important wage movements in any important industry in the United States during 1940. Beginning with 1941 the cost of living began to zoom up.[1]

But it was not until the Spring of 1941, a full year and a half after prices had begun advancing, that the major trade unions in the mining and steel industries began demanding wage increases.

Thus the corporations lie when they say that prices went up during the war because wages went up. Actually prices moved upwards for a year and a half before the major trade unions got any wage increase. It was because prices had al-

ready increased, resulting in an actual wage cut for workers, that the trade unions began demanding wage increases.

2. Which Went Up Faster?

That is how it has been ever since. The fight for higher wages has been a desperate effort to catch up with the dizzy spiral of prices.

Let's look at the record.

During 1942, the War Labor Board established the famous Little Steel Formula. This froze all wages at a level 15 per cent above that which existed in January, 1941. The only exceptions were those raises required to eliminate sub-standard rates of pay and wage differentials as well as those granted for individual merit and length of service promotions. These exceptions added up to an additional 5 per cent.[2]

Thus, during more than four and a half years from January, 1941 to July, 1945, the average manufacturing workers' basic rate of pay went up by 20 per cent at a maximum.

But during this same period, according to government estimates, living costs rose by a total of 40 per cent![3]

In other words, wages never caught up with prices.

What happened after the war ended?

Living costs increased 16.8 per cent from January, 1945 to October, 1946. By the end of 1946, the cost of living was about 20 per cent higher than it was in January, 1945, two years before. In terms of real wages, that is, what the worker can actually buy with his wages, this represents a wage cut of 17 per cent.[4]

Thus the fight for wage increases is, in reality, an attempt to catch up with the astronomical rise in the cost of living.

3. The Argument About "Labor Costs"

The corporations try to convince us that it is only natural and logical that wage increases should cause price increases.

They say: "Wages make up the labor cost of every article. It stands to reason that if wages—or labor costs—go up, the cost of producing the article must also go up. Therefore, wage increases must lead to price increases in every industry in which there is a wage increase."

Sounds logical, doesn't it? Especially if you say it very fast.

But you must say it very, very fast; otherwise the logic goes into the sewer.

Let's try saying it a little more slowly so we can prevent somebody from picking our pockets while we are saying it.

Let us assume, just for the sake of argument, that wage increases do cause price increases.

The first thing that must be noted is that an increase in hourly wage rates does not result in a corresponding increase in unit labor costs because of increased productivity. Very large increases in wages may result either in very small increases in unit labor costs or in no increase in labor costs whatsoever. For example, the Temporary National Economic Committee showed that in a certain paper company "wage rates increased 19 per cent between 1936 and 1938, yet because of a number of improvements in the paper making machines, labor costs per ton of paper increased only 6 per cent.[5] Had still further improvements been made, the labor cost would not have increased at all. In view of the increase in productivity during and after the war, it is obvious that increased hourly rates could not lead to corresponding increases in unit costs.

In the second place, the actual increase in straight time hourly earnings has not resulted in a corresponding increase in hourly labor costs to the employers. During the war, hourly labor costs to employers were higher than hourly straight time earnings because of overtime. If a worker got a straight time rate of one dollar an hour during an eight hour day and worked only eight hours, the hourly labor cost to the employer was one dollar. But if the worker put in two extra

hours overtime, he got one dollar and fifty cents for each of those two hours. This means that it cost the employer eleven dollars for ten hours work. Thus, the hourly labor cost was higher than the hourly straight time rate of pay because of overtime.

With the end of the war, overtime has been almost completely eliminated. As a result, even though there has been an increase in straight time hourly earnings, the increase in hourly labor costs has been much smaller. Straight time hourly earnings have increased since January, 1945 by 12.7 cents. But, as a result of the elimination of overtime, hourly labor costs to the employer have increased by only 8.6 cents.[6]

This increase in hourly labor costs represents an increase of only 8.2 per cent since January, 1945.[7]

But the increase in the wholesale price of manufactured goods during this period was 27.9 per cent![8]

Obviously the increased hourly labor cost was not responsible for such an increase in prices.

In the third place, labor costs are only a small part of the production cost of a specific article. The Federal Trade Commission, in 1940, studied more than 2,500 companies in 84 different industries and found that wages made up only about 25 per cent of the production cost of the average article.

Therefore, increase in wages do not result in corresponding increases in production costs. For example, a 25 per cent increase in wages and salaries would represent only an increase of one-fourth, or 6¼ per cent, in cost of production. If this increase in production costs were entirely added to the price of the article, the price should increase by only 6¼ per cent of the cost of production.

In other words, even according to this argument, very large wage increases should lead to very small price increases.

But actually, very small wage increases have been accompanied by very large price increases.

4. Behold the Snowball!

Since the argument about labor costs is so obviously weak, the corporations have lately attempted to explain the huge increase in prices by a new version of the labor cost theory. This "explanation" has been presented by E. A. Evans, a hired scribbler for the anti-labor Scripps-Howard newspaper chain as follows:

> Assume that an automobile company's direct wage-salary bill—the payroll for its own employees—is one-fourth of its production costs. A 25 per cent wage increase, if paid by only that one company among all the hundreds of thousands of companies, would justify an increase of only one-fourth of 25 per cent in the price of its product.
>
> But whether its own product is automobiles or whatever, each manufacturing company has to buy the products of many others. And general wage increases, such as the C.I.O. demands for its unions' members, increase the labor costs of all manufacturing companies. . . .
>
> So wage costs become a factor in prices, not once, but time after time, at each step as the rawest materials—metal ores underground, for instance—move through the factories of many manufacturers and become products for sale to consumers. . . .
>
> When wages are raised all along the line, labor costs snowball at each step. (N. Y. *World-Telegram,* Jan. 6, 1947)

After this recital, you probably begin to wonder why the price of an automobile has not quadrupled since the beginning of the war!

There is one simple fact which puts a very narrow limit to how far Mr. Evans' snowball can roll.

That fact is the following: The price which an auto manufacturer, for example, pays for his steel, accessories, parts, tires, batteries, glass, etc., includes all the wages which were paid out in all factories for the manufacture of these materials. It does not matter if the materials used in making an

auto came from a thousand different companies and from ten thousand different companies before that and from twenty thousand companies before that. *The fact remains that the sum total of all wages paid out for the manufacture of these materials can never be greater than the price which the auto manufacturer pays for them.*

On the contrary, it must at all times be considerably less than this price. This is obvious. The price of these materials includes not only their labor costs. It also includes other costs such as depreciation, taxes, interest, rent, etc. In addition, it includes the profit which is made by each company that took part in manufacturing these materials.

But for the sake of argument, let us assume that the entire price of these materials is made up of the wage costs of previous states of manufacture. This is a ridiculous assumption, but we make it in order to see just how big Mr. Evans' snowball can get even under the most fantastic conditions.

Furthermore, for the sake of argument, let us also assume that the auto manufacturer has no other costs such as interest, rent, depreciation, etc. In that case, the labor cost of manufacturing an auto would be 100 per cent of the cost of production. A 25 per cent wage increase all the way down the line would then lead to a maximum increase of 25 per cent in price. That is as far as the snowball can roll.

Even under these fantastic conditions, it is clear that when there is a general wage increase in all industries, prices would never increase more than the percentage increase in wages.

In actual life, since January, 1945 there has been an average wage increase of only 13.1 per cent.[9] Even if 100 per cent of the cost of production consisted of labor costs, a 13.1 per cent increase in wages could lead only to a 13.1 per cent increase in prices.

But the actual increase in wholesale prices of manufactured goods since January, 1945 has been 27.9 per cent!

Obviously even the snowball theory can't explain such a rise in prices.

It is clear from all this that wage increases do not explain price increases. Clearly, something else is responsible for price increases.

As a matter of fact, we admitted that increased labor costs cause price increases *only for the sake of argument.* The result of the argument disproves the argument itself.

5. Wages and Prices Change Independently

Actually wages and prices change independently of each other.

Look at the facts.

Wages may go up and prices may go down. Take electric refrigerators. Between 1935 and 1941 wages in the electric refrigerator industry went up 25 per cent. Despite this the price of a standard model electric refrigerator went down in price in that period from $195 to $172.50.[10]

Wages may go up and prices may remain the same. Take the cement industry. Average hourly earnings in the cement industry in 1936 were 58 cents, in 1937 they were 66 cents, in 1938 they were 69 cents. During those three years average hourly earnings increased by almost 20 per cent as compared with 1936. Yet the wholesale price of a barrel of Portland cement remained fixed during all those three years at $1.67.[11]

Wages may remain the same and prices may go down. Take steel. Wages in the steel industry were practically frozen from 1924 through 1929. In the Pittsburgh district common labor was paid 44 cents an hour in 1924, and by 1929 the rate was still 44 cents an hour. Average hourly earnings for all steel workers were 64 cents in 1924. Six years later, in 1929, they were 67 cents an hour—a total of three cents an hour higher after six years.[12] Despite this, the composite price of finished steel decreased from $2.61 per 100 pounds in 1924 to $2.35 per 100 pounds in 1928.[13]

Wages may differ between two plants and yet both may sell their products for the same price. Take tires. The Goodyear Tire and Rubber Company sells its tires at the same price all over the country. But the wages which it pays in its southern plants are from 15 cents to 50 cents lower than wages paid for the same work in its northern plants.[14]

From this it is clear that wages do not determine prices. And specifically, wage increases do not cause price increases.

Does it still sound strange? Then think about it some more.

Those who say that wage increases cause price increases in reality assume that the manufacturer can raise prices at his own sweet will. They maintain that when he has to pay higher wages, he decides to raise his price.

However, if it were true that a manufacturer could raise the price of his article whenever he felt like it, then he would lose nothing if wages were raised. He would simply raise the price of his article to cover the increase in wages.

But we know that the employer resists every demand for higher wages. Obviously, this resistance means that he does lose something when wages are raised. From what we know about employers, the loss of honor, decency and virtue would not disturb him in the least. There is only one thing whose loss would send his blood pressure up—profits. It is because a wage increase results in a cut in profit that the employer resists any wage increase.

Obviously, the employer himself does not believe his own claptrap about wage increases causing price increases. If he did, he would not allow strikes to interrupt his pleasant routine of profit-making. He would grant the wage increases, jack up the price to make up the dfference and let the profits come pouring in uninterruptedly.

Neither the small employer in a highly competitive industry nor the giant monopolist believes in or acts upon the principle that wage increases cause price increases.

6. Prices Under Free Competition

What prevents the small employer from raising his price every time he is compelled to grant a wage increase?

Why, the competition in his industry, of course. Let us assume he increased his price because of a wage increase. But suppose his competitor kept the price of his article at its original level. The competitor would sell his goods because they were cheaper. Our dear employer would be unable to sell his because they were more expensive. Instead of making a profit, he would soon go bankrupt. Hence, in order to meet competition, he must continue selling at the same price despite the fact that he has to pay higher wages. But when he does this, he gets a lower profit.

Thus, the wage increase does not determine the price. It affects the profit. Wage increases do not raise prices; they cut profits.

Furthermore, if this manufacturer can raise the price of his product every time he is compelled to raise wages, why must he wait until he is forced to raise wages? Why doesn't he simply raise the price every time he wants to? By doing that he would pocket the extra profit that came from a higher price without giving any wage increase. Now, obviously, that is exactly what he would do—if he could. The fact that he doesn't under free competition proves not that he is unwilling. Whoever heard of a capitalist unwilling to make some extra profit? It proves that he *can't*.

But what about the big fellows, you ask? What about the huge trusts, monopolies and cartels? They don't have to worry about competition in their industries. What is to stop them from raising prices every time they are compelled to give wage increases?

That's a good clean-cut question.

The only trouble with it is this: If there is no competition in their industry to stop them from raising prices when wages are increased *then there is also no competition in their*

industry to stop them from raising prices when wages are not increased.

And, up to a certain point, nothing does stop them.

7. Monopoly Prices

Monopolies and trusts are not decisively influenced in setting their prices by wage levels. The main thing that determines the price of an article produced by a monopoly is its opinion about what the traffic will bear. When the Mellon family sets the price of a pound of aluminum, the most important question it asks is: What price can we get away with?

For example, between 1925 and 1940 the price of a pound of aluminum ingot was between 20 cents and 27 cents per pound. But the cost of production including overhead, machinery, raw materials and labor was between 10 cents and 14 cents per pound. It is small wonder that *Fortune Magazine* said: "In the past, the price of aluminum has borne little relation either to the amount sold or to the cost of producing it."[15]

Take a look at the highly monopolized steel industry.

Last winter the Steel Union won an 18½¢ an hour wage increase.

According to the steel trust, this extra labor cost had to be transferred into the price of steel. Had this been done, the price of steel would have been raised $1 for every $1 that was paid out in higher wages. But the steel trust demanded and received from President Truman a price increase of $2 for every $1 they paid out in higher wages!

When the steel trust talks about wage increases being responsible for price increases, that's really something for the book. The price policies of the steel trust are well known for their disregard of every consideration but one—the maximum profit the traffic will bear.

The steel industry is notorious for its famous "break-even point" price system. According to this system, the price of a ton of steel is fixed so that a steel corporation can just break

even when production is at 40 per cent of capacity. When production goes up to 45 per cent it begins to make a "normal" profit. When production goes up to 60 per cent of capacity the profit goes above "normal." When production goes up to 80 per cent of capacity the profit becomes enormous. And when production goes up to full capacity, as it did during the war, the profits are fabulous.[16]

What does such a price policy mean?

When a steel plant operates at only 40 per cent of capacity, the pro rata cost of overhead for the entire plant—including the 60 per cent that is not working—is included in the price of every ton of steel that is turned out. Now when more than 40 per cent capacity is used, it means that steel is being turned out without any additional overhead expenses. Despite this, the price of a ton of steel remains the same. As a result, on every additional ton of steel over 40 per cent capacity, the cost of overhead is being charged *twice*. Furthermore, the closer a steel plant comes to operating at capacity, the lower do its unit labor costs fall. As a result, on every additional ton of steel over 40 per cent of capacity the "labor cost" is charged 1¼ times, or 1½ times or possibly even twice.

If wages determined prices, then the price of a ton of steel should be reduced whenever a steel plant works at higher than 40 per cent of capacity. But if you ever see that happen, then you are a very sick person and better get yourself to a doctor fast. Anybody that can see that happen is also capable of seeing pink elephants dancing with maroon colored butterflies.

No matter at what rate a steel plant works the price of a ton of steel remains fixed despite the fact that the "labor cost" of a ton of steel falls—as do its other costs of production. And the steel trust tells us that wages determine prices! That's enough to make a horse laugh.

There are also other price-fixing arrangements whereby the capitalists in certain industries try to maintain an artificially

high price to offset the effects of competition. A number of the most important capitalists who control the bulk of the output in a certain industry very often come to a written or unwritten agreement to "peg" the price of their product at a certain level regardless of the cost of production or the size of the demand. This is known as "pegging" the price or "rigging" the price.

Wage levels or wage increases are not a decisive element in fixing price levels or making price changes in a monopolized industry. That is one of the reasons why the big capitalists try to abolish competition among themselves by forming trusts, combines, holding companies and cartels. To the extent that monopolies abolish free competition in a certain cently, Alcoa had no competition of any kind in the aluminum industry of the United States. It ruled the roost.

What, then, prevents the monopolists from fixing their prices at even more fantastic levels than they are today?

Because they don't have an absolutely clear field to themselves.

Look at the Aluminum Corporation of America. This is as perfect an example of a monpolized industry as was ever seen since the beginning of the capitalist system. Up until recently, Alcoa had absolutely no competition of any kind in the aluminum industry of the United States. It ruled the roost.

But although it had no competition within the aluminum industry of the United States, it had to compete with other industries in the United States. For example, it had to compete with the steel industry and the copper industry. If its price were too high, manufacturers would begin to use steel or copper or other metals as a substitute. It also had to compete with European aluminum trusts which tried to invade the American market by underselling the Aluminum Corporation of America.

Thus, monopoly does not elminate competition. It repro-

duces competition on a gigantic scale between monopoly giants. The aluminum monopoly competes with steel monopolies, copper monopolies, etc. The auto trusts have reduced competition to the point where three giant trusts—the Big Three—virtually control the entire auto industry. But competition within the auto industry has not been completely eliminated among the Big Three. Also, autos must compete in the field of transportation with the bus and railroad industry. Coal for heating competes with oil for heating. The lumber industry competes with the brick and cement industry. All of them must compete with similar monopolies in the world market. And so it goes.

Thus, the elimination of free competition within an industry makes it possible for the monopolists to raise prices with slight regard for labor costs. But, among other things, the competition between monopolies in different industries and on the world market sets certain limits to the level of these swollen monopoly prices. They are fixed to give the maximum possible profit taking into account the probable size of the demand at this price in contrast with the demand at a still higher price. They are fixed to give the maximum possible profit taking into account the effect at this price of competition with other monopolies or in the world market in contrast to the effect at a higher price of such competition.

Therefore, an increase in wages is not responsible for an increase in monopoly prices. The monopolies raise prices to "compensate" for wage increases despite the fact that the level of wages had very little to do with determining the original price in the first place. They do it because a wage increase in a monopolized industry tends to cut down the exorbitant size of the monopoly profit.

That is why all employers resist wage increases, no matter whether they are in a competitive industry or a monopolized industry. They do so not because higher wages are responsible for higher prices but because higher wages reduce profits.

8. What Price Profit?

The real explanation for the dizzy increase in prices since the end of 1939 is to be found not in the wage increases of the workers but in the mad thirst for profits of the monopolies.

The monopolies have taken advantage of the shortage of certain products to boost prices up to whatever the traffic will bear. In cases where there have been no real shortages, the monopolies have deliberately withheld products from the market to create a shortage and force through a price increase.

That price increases have been caused by this super-duper profiteering of the monopolies is proven by the profit picture as revealed in the Nathan report.

According to this report, corporate profits (after all taxes were paid) reached fifteen billion dollars for the year 1946.

This is fifty per cent higher than the profits these same corporations made at the height of their war-time profiteering in 1944! And as we all know, war production is usually the most profitable kind of production for the capitalists.

It is seventy-five per cent higher than the profits made during 1929! And we all know that 1929 was up until now the most profitable peace-time year in America's history.

It is two hundred and seventy-five per cent higher than the average yearly profit during the years 1936-1939!

If we compare the rate of growth of money, wages and profit we find that total corporate profits since 1939 have increased much more rapidly than total wages and salaries. Corporate income, before taxes, are 290 per cent higher than 1939 while wages and salaries are only 169 per cent higher. Hence the relative position of the worker has sharply declined during this period.

The monopolists, taking full advantage of the special conditions of the country following the end of the war, increased their rate of profit at the expense of the consumer by deliberately raising all prices.

What price profit, friend?

II. WHAT DETERMINES PRICES?

1. Straight From the Horse's Mouth

We have just seen that wages do not determine prices.

But we still don't know what does determine prices.

Let's try to find out by going to someone who has the "know-how"—the manufacturer.

We ask Mr. Dough, the bicycle manufacturer: "How is the price of your bicycle determined?"

He replies: "First I take the cost of my materials such as tires, steel, machinery, etc. To this I add the cost of hiring my workers. Then I add my percentage of profit. The sum total of all three determines the price of my bicycle."

Quite simple, is it not?

No, it is not. For nothing has been explained.

What we have been told is that the price of the bicycle is determined by the price of a couple of other things.

Well, what determines the price of a couple of those "other things," e.g., the tires?

Mr. Dough can't tell us. He refers us to Mr. Smith who manufactures the tires for first-hand information.

So we ask Mr. Smith, the tire manufacturer: "How is the price of one of your tires determined?"

He replies: "First I take the cost of my materials such as rubber, fabric, machinery, chemicals, etc. To this I add the cost of hiring my workers. Then I add my percentage of profit. The sum total of all three determines the price of my rubber tire."

Now you have the answer, don't you?

No, you don't. For this also explains nothing.

What we have been told again is that the price of the tire is determined by the price of a couple of other things.

Well, what determines the price of a couple of these other things, for example, the fabric?

Mr. Smith can't tell us. He refers us, in turn, to Mr. Jones who manufactures the fabric.

So we ask Mr. Jones, the fabric manufacturer: "How is the price of your fabric determined?"

He replies: "First I take the cost of my materials such as cotton thread, machinery, etc. To this I add the cost of hiring my workers. Then I add my percentage of profit. The sum total of all three determines the price of my cotton fabric."

But, Mr. Jones, what determines the price of the cotton thread?

Mr. Jones says: "You'd better ask Mr. Skinflint. He manufactures that."

It gets to be quite monotonous, doesn't it?

Mr. Dough refers us to Mr. Smith, who refers us to Mr. Jones who refers us to Mr. Skinflint who no doubt will refer us to someone else who in turn will refer us to still another person and so on indefinitely. We seem never to get anywhere.

The trouble is that we have been going in a circle. Suppose we try something else—for example, supply and demand.

2. Supply and Demand

We often hear it said that supply and demand determine prices.

Let's see. In what way do supply and demand influence prices?

When demand is greater than supply, the price rises. When supply is greater than demand, the price falls.

But the opposite is also true . Prices influence supply and demand. When the price goes up, the demand begins to fall because fewer and fewer people can afford to pay the higher price. And when the demand begins to fall, the supply begins to fall. Nobody likes to produce what can't be sold.

On the other hand, when the price goes down, the demand begins to increase because more and more people can afford to buy at a lower price. And when demand begins to increase, the supply begins to grow. Everybody likes to produce something that can be sold.

So we have the following result: Supply and demand influence prices. But prices also influence supply and demand.

Once more we find ourselves going around in a circle and getting nowhere fast.

We agree that prices go up when demand is greater than supply. We also agree that prices go down when supply is greater than demand. But what happens when supply is equal to demand? Obviously the price doesn't go up and neither does it go down. It remains fixed at a certain point.

But what determines the point at which it is fixed?

This is where we came in in the first place.

3. What Do We Mean By Price?

Now let's try looking at it this way.

Just what do we mean when we talk about the price of an article?

Suppose the price of a hat is $5 and the price of a pair of shoes is also $5. If I own a hat, I can sell it for $5. With this five dollars I can buy the pair of shoes. In this way I start out with a hat and wind up with a pair of shoes.

What have I really done?

I have really exchanged the hat for the shoes.

Therefore, when I say that the price of the hat is $5, I really mean that it can be exchanged for a pair of shoes whose price is $5. Or else, that it can be exchanged for five fountain

pens whose price is $1 each. Or else that it can be exchanged for ten watermelons whose price is fifty cents each. Or else, it can be exchanged for twenty pounds of potatoes whose price is a quarter a pound.

In other words, prices express in terms of money the proportion in which one article may be exchanged for another; that is, its exchange value.

To find out what determines prices, we must first find out what determines this exchange value.

Let us go back to the hat and the shoes.

If one hat can be exchanged for one pair of shoes, the value of the hat must be equal to the value of the shoes.

But if their values are equal, they must both have something in common which can be measured.

What is there in common between a hat and a pair of shoes which can be measured to find out if they are equal to each other in exchange?

They are certainly not equal to each other because of their weight; a hat is much lighter than a pair of shoes. They are certainly not equal to each other because of their shape. They are certainly not equal to each other because of their size. They are certainly not equal to each other because of their color. They are certainly not equal to each other because of their materials. They are certainly not equal to each other in the uses to which they are put. In brief, they are not equal to each other because of any physical property which they may have.

There is only one feature which they both have in common which can be compared and measured. *Both of them are the products of human labor.* A certain number of hours of work was required to make the hat. Likewise, a certain number of hours of work was required to make the shoes. That is the only thing they have in common which can be measured to determine if they are equal to each other in exchange.

Therefore, the exchange value of an article is determined

by the hours of work required under average conditions of skill and technique to produce that article.

The price of an article merely expresses in terms of money this exchange value of an article. Therefore, the price of an article is, in the last analysis determined by the amount of work which is required to produce it.

It may sound strange to say this today.

But there was a time when it would have been strange to say anything else.

Centuries ago everybody determined the value of articles they wanted to swap for others, or to sell for cash, by the number of hours or days or weeks of work which it took to produce those articles. They habitually measured the value of a commodity by the amount of work it took to produce it.

In those days life was so narrow, limited and simple that everybody knew pretty accurately just how much work someone else had to put in to make or grow something. Most families raised, grew and made pretty nearly all the necessities of life right on their own farm. They not only grew their own wheat but also milled that wheat into flour themselves and baked it into bread in their own oven—which they themselves had built. They knew pretty generally how much work was involved, on an average, in making a loaf of bread from the time the seed was planted to the time the steaming loaf was pulled from the oven. The same thing held true of clothes. They grew their own flax, spun the flax into yarn, wove the yarn into cloth and made their own clothing—called homespun.

Even as far as other crafts were concerned, all worked under the public inspection of everyone else in the small villages and towns. The village blacksmith could see the village carriage maker work across the street. The village cabinetmaker could see the village candlemaker next door. The shoemaker, carrying his tools with him, would make periodic trips to outlying farms where he would make complete pairs

of shoes right outside the farmhouse door under the watchful gaze of the housewife.

Therefore, as a result of long experience the determination of the value of a commodity according to the amount of work it took to produce it was a comparatively simple matter. If, roughly, it took two days to chop down a tree, peel off its bark, saw the tree into suitable lengths, and make a dresser; while roughly, it took eight days to go through the same process in order to make a wagon, then the price of a wagon would tend to be four times as high as the price of a dresser.

When a man sold an article, he got gold or silver for it. In other words, he exchanged his article for a certain amount of gold or silver. In making this exchange, the only new question involved was to make a more or less correct estimate of how much work was required to mine or refine an ounce or a pound of gold or silver. As far as metal coins were concerned, a shilling or a crown or a franc was simply the name for so many ounces of the precious metal contained in the coin.

Sometimes, of course, when the demand was greater than the supply, the price would rise above the value as determined by the working time necessary to make the commodity. Sometimes when the supply was greater than the demand, the price would fall below its true value. But, in general, the price fluctuated around that value.

4. Benjamin Franklin and Karl Marx

The first American thinker to study this question and write about it was the celebrated founding father of our country, Benjamin Franklin. He wrote in 1721 as follows:

> By labor may the value of silver be measured as well as other things. As suppose one man employed to raise corn while another is digging and refining silver; at the year's end, or at any other period of time, the complete produce of corn, and that of silver, are the natural price of each other; and if one be twenty bushels, and the other twenty

ounces, then an ounce of that silver is worth the labor of raising a bushel of that corn. Now, if by the discovery of some nearer, more easy or plentiful mines, a man may get forty ounces of silver as easily as formerly he did twenty, and the same labor is still required to raise twenty bushels of corn, then two ounces of silver will be worth no more than the same labor of raising one bushel of corn, and that bushel of corn will be as cheap at two ounces, as it was before at one, *ceteris paribus*. Thus the riches of a country are to be valued by the quantity of labor its inhabitants are able to purchase. . . . Trade, in general being nothing else but the exchange of labor for labor, the value of all things is, as I have said before, most justly measured by labor.[17]

In other words, Ben Franklin said that the value of a bushel of corn was determined by the amount of time a farmer worked to raise it and bring it to market. It took him as much working time, on an average, to raise a bushel of corn as it took a silver miner to dig and refine an ounce of silver. Therefore, a bushel of corn was worth an ounce of silver. If there were an ounce of silver in a British shilling in those days, the price of a bushel of corn would be equal to one shilling. What Benjamin Franklin said in 1721 was the product of his own direct experience. Franklin was above all a practical man. His opinions and ideas were based on a shrewd practical insight into the behavior and activities of people and things. He generalized this practical insight into a theoretical explanation of value and price.

Benjamin Franklin's opinions were one of the first brilliant expositions of what later became known as the labor theory of value. This theory maintains that the value of commodities is determined by the working time which is necessary for society, on the average, to produce those commodities. It maintains that the price of a commodity is nothing but its value expressed in terms of money. Therefore, the price of a commodity is, in the last analysis, determined by the working

time which is necessary, on the average, to produce that commodity.

This labor theory of value, which Benjamin Franklin was one of the first to advance, became one of the cornerstones of Karl Marx's socialist theories. Of course, Karl Marx put this theory on a scientific basis and found the answer to many questions which Ben Franklin could not solve. But the pioneering character of Franklin's observation was an important contribution to human thought. In fact Karl Marx says the following about Benjamin Franklin:

> The first sensible analysis of exchange value as labor-time, made so clear as to seem almost commonplace, is to be found in the work of a man of the New World where the bourgeois relations of production imported together with their representatives sprouted rapidly in a soil which made up its lack of historical traditions with a surplus of humus. That man was Benjamin Franklin, who formulated the fundamental law of modern political economy in his first work which he wrote when a mere youth and published in 1721.[18]

What, oh what, will the Daughters of the American Revolution say to this!

As gold and silver began more and more to be used as a medium of exchange people began to estimate the value of an article in terms of so many ounces of silver or gold instead of so many hours or days of work. But actually when they estimated that a bushel of corn was worth an ounce of silver, they did so because the labor time necessary to produce a bushel of corn and an ounce of silver was same.

Later still, when governments began to coin money such as ducats, shillings, francs, golden eagles, etc., people began to estimate the value of an article in terms of certain coins instead of so many ounces of gold or silver. They stopped saying that a bushel of corn was worth an ounce of silver and began

to say that a bushel of corn was worth a shilling. But actually, when they estimated that a bushel of corn was worth a shilling, they did so because there was an ounce of silver in a shilling. It was merely a different form of saying that a bushel of corn was worth an ounce of silver.

People stopped thinking in terms of precious metals and began to think exclusively in terms of *prices*. They did so not only because the use of gold and silver gave way to coins and other forms of money but because it became more and more difficult to estimate how much work was involved in producing certain articles.

Especially in modern times, under highly developed capitalism, conditions are vastly different from what they were in Ben Franklin's day, or the centuries before. None of us can tell from our own direct, everyday experience just how much working time is involved in the manufacture of even the most commonplace articles—an auto, or a watch, or a loaf of bread.

Nevertheless, the fact is that today—just as 200 or 500 or 1,000 years ago—the value of a commodity is determined by the amount of working time it takes to produce it. The law of value operates behind our backs, so to speak, without our being consciously aware of it.

It was the great genius of Karl Marx which made it possible for us to penetrate beneath the complexity of the modern capitalist system of prices and to demonstrate that the basic law of value still operates—the law which states that the value of an article is determined by the amount of working time which it took to produce it and that price is simply the expression of this value in terms of money.

This law operates today for society as a whole as a law of averages. This means that the average price of articles over long periods of time is determined by the average amount of work it takes society as a whole to produce them.

This is why, over long periods of time, over many decades, the price of all articles tends to fall. The price tends to fall

because productivity continually grows, that is, less and less work is required to produce articles.

But the amount of work which it takes to produce an article is a very different thing from the amount of money a worker gets as wages.

So long as it takes the same amount of work to produce an article, the value will remain the same, and the price will tend to remain the same.

But that doesn't stop wages from going up or down.

On the other hand, it may take less work to produce an article. In that case the value will decline, and the price will tend to fall.

But that doesn't stop wages from going up or down or remaining the same.

This explains the facts we presented in the first part of this pamphlet. Those facts proved that in actual life prices and wages may change independently of each other. The law of value explains why this is possible.

The law of value proves that wages do not determine prices because prices are determined not by wages, but by something else—by the value of the article.

III. SHOULD LABOR FIGHT FOR WAGE INCREASES?

1. The Productivity Wage Policy

The corporations say:

"Don't ask for wage increases now. The only way to increase real wages is to lower prices by increasing productivity. Help us increase productivity, and you will automatically get higher real wages."

This is also the wage policy of the reactionary top leadership of the A. F. of L.

One would think that there had been no increase in productivity during the past few years and hence that wages can't be increased today without increasing prices.

But productivity in all manufacturing industries increased on an average about 5 per cent per year from 1941 to 1944. The total increase in productivity during this period was 19 per cent, according to the War Production Board.

Why haven't we gotten lower prices and, therefore, higher real wages as a result of this increased productivity?

"The war," they say, "It's because this increase in productivity took place in industry producing war materials. Increased productivity in making 30-min. shells or 50-ton tanks doesn't mean anything for wages and prices today. Not many workers produce them, and certainly the general public

doesn't buy them. What we have to do is increase productivity of peace-time industry. War time increases in productivity can't be passed along to peace-time industry."

They lie again. More than three-quarters of all production during the war years 1942, 1943 and 1944 was on products which are used not only during war but also during peace-time. About half of all production and construction carried out on war contracts was likewise on products which are used during peace-time such as autos, trucks, radios, gasoline, etc. The increase in productivity in these products should affect wages and prices now. But it doesn't.

In addition, the war ended more than a year and a half ago. Has nothing happened since then?

The U. S. Bureau of Labor Statistics reported that production per man rose in 1945 over 1944. The Federal Reserve Board declared that in the majority of industries productivity i shigher than before the war. The *U. S. News* (October 4, 1946), stating that a further and faster rise in productivity is indicated for 1947, predicted that productivity will rise in the first half of 1947 to a peak about 25 per cent above the 1939 level. The U. S. Bureau of Labor Statistics calculated in January, 1946 that productivity by 1950 would be 30 per cent higher than in 1940.

Thus productivity increased *during* the war. It is continuing to increase *today*. It will continue to increase in the *future*.

If increased productivity automatically results in higher real wages through lower prices, it should have had that result *already*. But it hasn't.

Obviously, increased productivity doesn't automatically lower prices.

Perhaps the trouble is that we have been discussing war years. What about a peace-time period?

Let us take the eight year peace-time period between 1922 and 1929.

During this period productivity in manufacturing indus-

tries increased by more than 25 per cent. If productivity automatically results in an increase in real wages through a decrease in prices, there should have been quite a substantial increase in real wages during these eight years. Nothing of the kind happened. Prices as a whole did not go down during those years. They actually increased somewhat. In 1922 retail prices were 49 per cent higher than they had been in the years preceding the World War I. In 1929 they were 53 per cent higher. In other words, retail prices in 1929 were higher than in 1922 despite the fact that productivity had increased.[19]

What about money wages during this period? Perhaps the increased productivity resulted in higher money wages instead of lower prices?

The National Industrial Conference Board, a big business organization, gives us the answer to that one straight from the horse's mouth. According to it, the average hourly earnings of workers in 25 different manufacturing industries were 56 cents an hour in 1924. In 1929, they were 59 cents an hour. In other words, average hourly earnings in these industries had increased about one-half cents an hour each year for those six years. This was a total increase over six years of about 5 per cent or less than 1 per cent per year.[20]

These are the facts.

They make all the corporation doubletalk about increasing real wages by greater productivity look pretty sick.

What the corporations mean when they ask the worker to cooperate in raising productivity is to submit voluntarily to speed-up. The corporations don't need any cooperation from workers in raising productivity by introducing new machines or making technological improvements on existing machines. Whenever a corporation thinks it will be more profitable to install a new machine, thus increasing productivity, it does so without asking for the "cooperation" of the worker.

But there is more than one way of skinning a cat. Output may also be increased by speeding-up the worker without

introducing any new machines or technical processes. This method of increasing output is well-known to all workers and hated by them. In its most developed form it is known as the Taylor system or the Bedaux system. In the textile industry it is known as the "stretch-out." Speed-up increases output by burning out the workers. At forty he is ready for the scrap heap.

This is the kind of increased output the corporations prefer. They hate to lose the millions of dollars they have invested in machinery and equipment by throwing them on the scrap heap whenever a newly invented machine renders them obsolete. They would rather speed up the worker and throw him on the scrap heap when he is all burned out. Workers are cheap—machines cost a lot of money.

In fact, it is quite laughable to hear the big trusts and corporations talk about their great love for increased productivity. They are among the most important forces for hindering and delaying the introduction of new machinery and processes. They buy up patents and sit on them for years to prevent anybody from using them until their own original investment is paid back. They introduce new machinery and new processes only when it is more profitable to them no matter how much this delay prevents any increase in productivity.

As a matter of fact, it is not the high level of technique and productivity which has produced the boasted "high standard of living" in the United States compared with other countries. It is the other way around. Historically, wages were relatively higher in the United States than in European countries because if a worker didn't like his wages in the early days he could pack up and get himself a homestead in the West. This high level of wages and shortage of workers stimulated the search for and introduction of labor-saving machinery by American employers. Historically, therefore, it was not productivity which led to relatively high wages but these relatively high wages which led to ever greater productivity. Later

on, when it was no longer possible for a worker to pack up and go out West, it was only as a result of gigantic strike struggles that these relatively high wages were prevented from being cut to the same level as in other countries.

What does increased productivity result in?

Its only inevitable and automatic result is to reduce the labor cost of each unit produced. If a hand loader in a coal mine gets ten dollars a day and loads ten tons a day, then the labor cost of loading a ton of coal is one dollar. If a loader operating a mechanical loader gets ten dollars a day and loads twenty tons a day, then the labor cost of loading a ton of coal is fifty cents a day. The productivity of the loader has doubled. As a result the labor cost of loading a ton of coal has been cut by 50 per cent. If the productivity of all categories of miners —loaders, shot-firers, motormen, check-weighmen, inspectors, etc.—was likewise doubled, then the total labor cost of a ton of coal would likewise be reduced by 50 per cent.

That's all that happens automatically.

After that, it depends—

In a highly competitive industry like bituminous coal mining, increased productivity results in lower prices for coal. A coal operator who mechanizes his mine gets a bigger profit on each ton of coal because his labor cost on each ton of coal is reduced. He can, therefore, reduce his price per ton of coal below the general market price and continue making the same profit per ton of coal that other operators make who sell at the regular market price. In order to keep their customers, the other operators are also compelled to mechanize their mines and reduce their prices.

In a highly monopolized industry like steel or railroads or telephones, increased productivity does not result in lower prices. Take the telephone industry. Enormous increases in productivity have been made in all branches of the telephone industry over the last quarter of a century. But a telephone call was a nickel twenty-five years ago. It still costs a nickel

today. Similarly in the railroad, aluminum and other monopolized industries. The lower labor cost per unit of production is not passed on in any form—either in lower prices or in higher wages. It goes into the profit column of the monopolists.

And the fact is that the monopolists already control the overwhelming bulk of American industry. The war enormously increased monopoly control over the economic life of the country. Even less than previously in the history of our country will increased productivity tend to reflect itself in lower prices.

The worker will not automatically get a bigger piece of pie merely by baking a bigger pie. Whether the pie is big or small, his share will be as big as he is strong enough to force the capitalists to give him.

2. The Production Wage Policy

"Don't ask for wage increases. Prices haven't come down because despite increased productivity actual production is not yet hitting on all cylinders. Not enough autos, refrigerators and other articles have actually been produced," the corporations say. "Wait till production gets back to full speed. Then supply and demand will bring prices down, and your real wages will increase."

But, as we saw earlier, supply and demand didn't bring prices down between 1922 and 1929. Every year the supply increased. Levels of production were surpassed year after year until in 1929 they reached—for that time—an all-time high. But still prices did not come down. They actually increased somewhat between 1922 and 1929. Then they did come down —with a crash that shook the world. Even then, the monopolies prevented prices from going down as far as they should have by deliberately destroying large supplies of goods. They dumped oranges into the Pacific Ocean and burned tons of coffee to prevent prices from falling still further.

The only trouble was that when prices came tumbling down after the crash of 1929 the workers didn't have any wages to

buy anything at those low prices. They lost their jobs—17 million of them. They stood on street corners selling apples at the new low price of 5 cents each. They stood on soup lines to get a free bowl of low-priced soup. They lived in Hoovervilles made out of low-priced wooden crates. They travelled around the country looking for jobs in low-priced freight cars.

That's how our friend, the good old law of supply and demand, may bring prices down again. Already, the war-time savings of America's workers have been exhausted. Buying continues at a fairly high level because sections of the middle class still have some extra money to spend. When that becomes exhausted, then the "demand" which is already falling will fall still further, and the "supply" will crash down on the heads of the entire country.

Then, those who have the whole "supply" will suddenly discover that the supply was bigger all along than the demand. They will discover that their warehouses were stacked all along with "supply" for which there was no demand. They will discover that there was an overproduction of everything.

Today they say the trouble is that the demand is bigger than the supply. Tomorrow, when the crash comes, it will be seen that the trouble was just the opposite—the supply was already bigger than the demand. That is why crises take place regularly under capitalism. They are always crises of relative overproduction—crises which take place because supplies are always manufactured without regard to demand and therefore in excess of demand.

If prices were automatically regulated by supply and demand, the price of commodities should already be way down. Inventories—that is, unsold products stacked up in warehouses and factories—have already reached the all-time high of close to forty billion dollars. The capitalists themselves are becoming frightened. But that doesn't stop prices in general from continuing to increase, even though a few items may decline from their highest point. Obviously supply and demand can't be

relied upon to bring prices down and thus increase real wages.

3. Wages and Crises

"Don't ask us for wage increases because that will result in a crisis or depression. When wages go up, prices have to go up. When prices go up, less people can buy goods. Therefore, manufacturers have to stop producing. They lay workers off and a depression starts."

That's what the corporations say.

But it's false.

High wages do not cause crises or depressions.

In the first place, we have seen that wage increases do not cause price increases. So, if high prices cause a crisis or depression, high wages are not responsible for it.

In the second place, crises and depressions can and do break out even when prices are not "high" in the sense we speak of high prices today. For example, there were no high prices comparable in any way to the present during 1935 or 1936. despite this, a depression took place during the summer of 1937 which threw millions of workers out of jobs.

In the third place, high wages—regardless of prices—do not cause a crisis for any other reason either. Wages were not especially high during 1935 or 1936, but the depression of 1937 broke out anyway.

Even more, as we saw earlier from the figures of the National Industrial Conference Board, wages remained at practically the same level between 1924 and 1929. Average hourly earnings of workers in twenty-five different manufacturing industries were 56 cents an hour in 1924 and 59 cents an hour in 1929. An insignificant increase. Yet in 1929 the worst crisis in the history of the world broke out.

Obviously, high wages or wage increases did not cause that crisis.

Neither will wage increases be responsible for the crisis which even capitalist economists admit is inevitable toward the end of 1947 or the beginning of 1948.

In fact, if wages are not raised, the crisis will come more quickly. It will be more catastrophic when it does come. And the workers will suffer more heavily from the ravages of the crisis if their wages are kept down now and if prices continue at the present outrageous levels.

In fact, the present low wages are speeding up the outbreak of the crisis and creating conditions which will make the crisis deeper when it does come.

Crises have always taken place regularly under capitalism. The only way to abolish crises is to abolish the cause of crises —the capitalist system.

An increase in wages will, however, retard the outbreak of the crisis. It will put workers in a better position to withstand the worst ravages of the crisis. Therefore, precisely because a crisis is around the corner, workers must fight harder for wage increases.

It is clear from everything that has been said that labor must fight for higher wages. Unless it does, its real wages and therefore its standard of living will be constantly reduced even below the extremely low level at which it is now.

But what policy should guide labor's fight for higher wages? This is an extremely important question.

4. The Cost of Living Approach

At the present moment, the labor movement is demanding wage increases to meet the increased cost of living since January, 1945.

This demand is absolutely correct.

If labor did not demand such wage increases, it would signify its willingness to accept a cut in its real wages, that is, in what a worker can actually buy with the money wages he gets. If not resisted, the low real wages today would be only the beginning of continued driving down of real wages. The working class as a whole would be progressively depressed ever closer to the level of paupers.

But should the wage policy of the labor movement be based on this cost of living approach?

In our opinion, it should not. Such an approach assumes that the standard of living as it existed in January, 1945 was acceptable to labor and that labor is interested only in maintaining that standard of living.

But the labor movement can never be satisfied with the standard of living it had in January, 1945.

The Heller Committee of the University of California worked out a budget which it considered as a minimum requirement for health and decency. According to this budget, in 1941, a family of four would have needed $2,042 a year, but average earnings of a worker in manufacturing were only $1,604 a year. In other words, the standard of living of the average worker in 1941 was below what was required for a minimum standard of health and decency.

According to the Heller Committee standards, a family of four today needs approximately $70 a week to maintain a minimum health and decency.[21]

We see from this that even if the labor movement won wage increases which would make up for the advance in the cost of living, it would still be lower than what is required for a minimum of decency.

That is why the cost of living approach cannot be the basis for the wage policy of the labor movement.

But that is exactly what is done by the Trotskyites with their infamous "escalator clause" wage policy. According to this escalator clause, the wage standard is determined by what the cost of living was at a certain date. Then, whenever prices increase by three per cent wages are adjusted upwards to meet the increased cost of living. In other words, the standard of living of the worker would be fixed by contract to a certain level.

The labor movement must reject such a wage policy. It is a wage policy which takes for granted that the standard of

living either now or at any time in the past is, or was, a good one which requires only to be maintained.

The Heller Committee report shows that this is false even by the most conservative estimates of what a decent standard of living should be.

5. The Ability-to-Pay Approach

Another incorrect approach is known as the "ability to pay" wage policy. According to this policy, the labor movement should make its wage demands on the basis of what the corporations are able to pay.

Now, in the first place, workers can never really determine what the level of an employer's profit is. The bosses have become so expert at concealing their profits that the Income Tax Division of the Treasury Department has to employ a whole army of lawyers, accountants and detectives to uncover all the tricks the bosses use to conceal their actual profits in order to cut down their taxes. And even they can't uncover all the fraud that is practiced.

How in the world will the labor movement ever be able to determine how much profit a corporation has made and therefore how much it is "able" to pay?

Walter Reuther's demand that General Motors "open its books" was based on this "ability to pay" theory. But what good would it have done the auto workers if the books had been opened? There are a thousand ways of concealing profits that the "books" would never show.

In the second place, a wage policy based on "ability" of the employer to pay would destroy the possibility of maintaining or achieving one of the most important demands of the trade unions—uniform, industry-wide wage rates.

It is well known that different employers in the same industry make different rates and amounts of profits. Some employers, the so-called "marginal employers," make the lowest profits. Others make higher profits.

According to the "ability to pay" approach, wage rates in the so-called "marginal" plants would have to be lower than those in others. Similarly, when wage increases are demanded, smaller wage raises would have to be demanded from them than from the others.

But this would result in one of two things:

1) Either it would bring the uniform, industry-wide wage scale down to the low level which the so-called "marginal" employers is "able" to pay or,

2) There could not be a uniform, industry-wide wage scale.

In the third place, the "ability to pay" approach means that labor accepts the principle that wages should be cut whenever a certain employer begins to make less profit. It means acceptance of the principle that labor should voluntarily accept wage cuts in times of crisis or depression because the employer makes less profit and, hence, has less "ability" to pay.

In fact, the "ability to pay" approach is traditionally the approach that the employer has used in his negotiations with unions because it serves his interests. The fact that it seems, at the moment, to strengthen labor's case for a wage increase is misleading. If the labor movement should make the employer's "ability to pay" the basis for its wage policy—then the chickens will come home to roost when the crisis breaks.

What will the labor movement do when the employers use the "ability to pay" theory a year from now to justify their demand for wage cuts? If it bases its claim to wage raises now on "ability to pay," it is helping pave the way for the employers to cut wages a year from now.

6. What Should Guide Labor's Wage Policy?

One consideration above all must guide the labor movement in its wage struggles. It must at all times aim to secure an ever-higher standard of living for the mass of workers.

As we have seen, the present standard of living of the mass of American workers is below what is required, according to

the Heller Committee, for a minimum of health and decency.

Hence, the wage demands of the labor movement at the present time are fully justified and absolutely necessary if labor is to move forward to win a higher standard of living than has existed in the past.

As a matter of fact, even should the present wage demands of the labor movement be fully won, the resulting standard of living would still be below that indicated in the Heller Committee report.

And even if the labor movement won wage increases which would bring its living standards up to that proposed by the Heller Committee, that could not be considered an upper limit. What is sacred about the Heller Committee standard of living? Why should the working class live at a standard which is based on a *minimum* of decency? Why should it not live at a standard which is higher than a *minimum* for health and decency?

It should, and it must.

The wage policy of the labor movement should be such that it aims *constantly* at *raising* the standard of living of all workers.

How high should it try to raise it?

As high as it is strong enough to do!

Only the extent of unity and strength of the organized labor movement, and the strength of the allies it can win to support its struggles, should determine the wage demands of the labor movement.

The more highly organized the American workers are, the closer the ties of labor with the poor farmers, the Negro people and the city middle classes, the more it will be able to demand and win.

In conducting its wage struggles, labor must develop a many-sided approach—direct wage increases, increased minimum wage rates, portal-to-portal pay, abolition of wage rate inequities within plants, as well as geographic wages differ-

entials. It must fight to establish, wherever possible, the guaranteed annual wage.

In conducting its wage struggles, labor must at all times remember that many factors besides money wages determine the living standards of the masses. Hence, it must accompany its direct wage struggles with an organized struggle on the political front for increasing all forms of social insurance, for shifting the burden of taxation from the wage earner and the lower middle class to the wealthy and the corporations, for measures to curb the monopolies and, among other things, to expose and break up monopoly price-fixing arrangements. It must accompany its struggle for wage increases with a determined effort to eliminate the scandalous north-south wage differential and, above all, the discrimination against Negro workers in wage rates. It must accompany its struggles for wage increases with a determined struggle to shorten the work week without reduction in pay.

Only a successful struggle along such lines will enable the labor movement to advance in the direction of constantly raising the standard of living of the great mass of workers.

How high can wages be raised if the labor movement has a correct wage policy? Can it, by increasing its organization and fighting capacity, raise wages indefinitely?

To answer this question, it is first of all necessary to understand what wages are.

7. What Are Wages?

When your employer gives you a certain sum of money every week as wages, he is really buying something from you. He buys something from you when he pays you wages just as he buys something from a dealer when he pays him for raw materials.

But what do you sell your employer in return for your wages?

Suppose you are a miner. Do you sell coal to your employer

in return for your wages? Of course not. If you are an auto worker, do you sell autos to your employer in return for your wages? If you are a shoe worker do you sell shoes to your employer in return for your wages? Of course not.

You don't have any coal or autos or shoes to sell.

There is only one thing which the miner, the auto worker, the shoe worker or any other kind of worker has that he can sell. *That one thing is his ability to work.*

You sell your ability to work, and, in return, you get your wages.

Your wages are the price of your ability to work. This price is determined in the same way that all other prices are determined—by value.

But what determines the value of your ability to work? The same thing which determines the value of any other commodity—the number of hours of work which it takes to produce it.

To produce your ability to work, you must have at least enough food, clothing and shelter to keep on living.

Therefore, the wages of the worker are determined first of all by the value of what he needs physically to keep on living so he can be able to work. That is the minimum below which wages cannot fall—at least not permanently.

But wages may be higher than this minimum.

Historical and social conditions play a decisive role in determining whether they actually will be higher than this physical minimum. Historical conditions in the United States are such that a relatively higher standard of living was established than in other capitalist countries. In other words, what the workers in the United States consider necessary to eat, wear, live in to be able to work is different than in other countries. Therefore, the general level of wages is relatively higher in the United States than in these other countries. But even in the United States historical and social conditions have given

rise to different standards of living in different parts of the country. This accounts for the differential in wage levels between north and south over many decades.

What wages actually will be at any period is therefore determined by the struggle of the trade unions against the efforts of employers to lower commonly accepted standards of living. But while an ever stronger labor movemen can raise wages without regard to any "ability" of the employers to pay, it can raise wages only within certain limits. These limits are fixed by the nature of the capitalist system as a profit system. Every increase in wages cuts down profits. The more wages cut into profits, the more desperately the capitalist class uses every weapon at its command to keep wages down and lower them still further. It introduces new labor-saving machinery which throws workers out of jobs and creates a permanent army of unemployed. This army of unemployed workers is then used as a weapon to club the employed workers into accepting lower wages or not fighting for higher wages.

Not only that. Periodic economic crises are an inevitable feature of capitalist society. They occur regularly, independently of the will of the capitalist or worker. They result in the shutting down of factories, mines, mills and offices for whole periods of time. Workers are completely thrown out of their jobs by the millions and thus cut off from the possibility of earning any wages—high or low.

Thus, the profit system, by the very nature of its functioning, puts a limit to the level to which wages can be raised even by the most stubborn organization and struggle. Under capitalism, wages can never be raised to the point where they threaten the actual existence of the capitalist system itself.

Does this mean that it is useless for the worker to fight for higher wages? Of course not. As Karl Marx said:

> . . . the very development of modern industry must progressively turn the scale in favor of the capitalist

against the working men, and . . . consequently the general tendency of capitalistic production is not to raise, but to sink the average standard of wages, or to push the *value of labor* more or less to its *minimum limit.* Such being the tendency of *things* in this system, is this to say that the working class ought to renounce their resistance against the encroachments of capital and abandon their attempt at making the best of the occasional chances for their temporary improvement? If they did, they would be degraded to one level mass of broken-down wretches past salvation. I think I have shown that their struggles for the standard of wages are incidents inseparable from the whole wages system; that in 99 cases out of 100 their efforts at raising wages are only efforts at maintaining the given value of labor and that the necessity of debating their price with the capitalist is inherent to their condition of having to sell themselves as commodities. By cowardly giving way in their everyday conflict with capital, they would certainly disqualify themselves for the initiating of any larger movement.[22]

The labor movement must continually fight for higher wages. And in this fight it must base its wage policy upon the need for continually raising its standard of living to new heights. Only this perspective, as well as the strength of its organization and the support it gets from its friends and allies, should determine the specific wage demands of the labor movement.

At the same time, the labor movement must begin to understand that its struggle for higher wages and against the efforts of the capitalists to lower living standards is a struggle which can be carried on only within certain limits and which can never permanently solve its problems. The fundamental cause of the poverty, misery and degradation of the great mass of workers is the capitalist system itself. The labor movement must begin to understand that, necessary as the fight for high

wages is, it is not enough. It must advance beyond the limitations of this economic struggle and set itself the political goal of abolishing the capitalist system. It must set itself the lofty aim of establishing socialism in the United States as the only final and permanent solution of all its problems.

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