CHRISTIAN ECONOMICS

We believe in less government, the free market and the faithful application of Christian principles to all economic activities.

Unemployment and the Height of Wage Rates

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PUBLIC OPINION, misguided by the fanatical propaganda on the part of the deadly foes of freedom and prosperity, looks upon the disputes concerning the height of wage rates as if they were only conflicts between wage earners and employers. It ascribes to the employers the power to determine wage rates ad libitum. It fails to realize the fact that the entrepreneur is not sovereign in the conduct of his enterprise but entirely subject to the most rigid orders given by his customers, the public. It does not depend on the businessman's arbitrariness to determine what he produces and how. He is, by the instrumentality of the profit and loss system, forced to supply the buying public in the best possible and cheapest way with those commodities and services which they are asking for most urgently. All his measures are directed toward meeting the wishes of the public. The consumers are sovereign and the businessmen are their servants.

It is the consumers that ultimately determine the prices of the products and thereby indirectly the prices their purveyors are able to pay for the material means of production and for the labor required for turning out the products. It is the consumers that determine that a movie star should get a much higher pay than a welder, a charwoman much less than a boxing champion.

Economics describes this state of affairs in formulating its marginal utility doctrine. It points out that the price paid for every factor of production, whether material or human, depends on the value that the consumers ascribe to its contribution to the turning out of the product. If the businessman spends more for the purchase of a factor than the consumers are prepared to refund to him in buying the product, he suffers losses and, if he does not change his practice in time, is forced to go out of business. In this way the market, i.e., all of the people, determine the prices of the material factors of production and the height of salaries and wage rates paid to all people working in the offices, shops and farms.

This is what is meant by those who call the market economy a democracy in which every penny gives a right to vote. The whole of the nation are, as it were, a tribunal that assigns to everybody the prices which he can reap in selling his products or his labor. Everybody participates in this process in a double capacity. On the one hand he is, as a buyer and a consumer, a member of the tribunal that assigns to everybody his income and on the other hand he is, as a breadwinner, one of those to whom an income is assigned. In buying admission to a show, the man who makes a hundred dollars a week in his job in a factory assigns a salary of $10,000 a week to an actor. It is the same man's valuation that assigns a much lower pay to the work of a bus driver or a housepainter.

What Makes Wages Rise

In their capacity as earners of wages and salaries the immense majority of the nation are vitally interested in the establishment of conditions that cause wages and salaries to rise. There is but one way to attain this end, viz., to raise the marginal productivity of the individual job holder's contribution. When the accumulation of capital outruns the increase in population, the marginal utility of the worker's contribution rises and makes wages go up concomitantly. The height of wages depends on the height of the per head quota of capital invested. Saving and capital accumulation are the very implements of improving the material conditions of the wage earners.

Wages and salaries are in present-day America much higher than they were in the past because the quantity of capital invested increased more rapidly than the number of people anxious to get jobs. The plight of the underdeveloped nations is due to their shortage of capital. It is not denied by anybody that what these countries need in order to improve the standard of living of their masses is more capital. A man working in India with the primitive tools that in the capitalistic countries have been discarded long since produces much less per unit of time than the American or British worker. Consequently the compensation he receives is much lower.

It is the most stupid of all communist lies that the considerable capital investments America and Western Europe made in Latin America, Asia and Africa mean "exploitation" of the natives for the benefit of the foreign capitalists. What was wrong with these economically backward countries was that they did not develop spontaneously those legal and institutional conditions that make saving and capital accumulation safe against the arbitrariness and the greed of those in political office. Where the laws do not sufficiently protect private ownership of the means of production, there cannot be any autochthonous development of modern industrial plants. Nature has endowed most of those countries that are today looked upon as backward much better with natural resources than the soil of the countries inhabited by the capitalistic nations. The poverty of these underdeveloped nations is not due to natural conditions. It is a result of their bad policies. If the foreign capitalists had not provided them with capital, most of them would still have to do even without railroads and hydroelectric power plants. Every investment that foreigners made in their lands was immediately followed by an upward movement of wages, not only in the plants erected by the foreigners themselves, but also in other fields of business.

What Generates Unemployment

Public opinion believes that the improvement in the conditions of the wage-earners is an achievement of the unions and of various legislative measures. It gives to unionism and to legislation credit for the rise in wage rates, the shortening of hours of work, the disappearance of child labor and many other changes. The prevalence of this belief made unionism popular and is responsible for the trend in labor legislation of the last decades. As people think that they owe to unionism their high standard of living, they condone violence, coercion and intimidation on the part of unionized labor and are indifferent to the curtailment of personal freedom inherent in the union-shop and closed-shop clauses.

But this popular doctrine misconstrues every aspect of economic reality. As has been pointed out, the height of wage rates at which all those eager to get jobs can be and are employed depends on the marginal productivity of their performance. If, either by union pressure and compulsion or by government decree, the employers are prevented from hiring help at this market rate and forced to pay more, the costs incurred by the employment of workers rise in the production of a number of articles above the prices the consumers are prepared to expend for the value added to the product by these workingmen's effort. In order to avoid losses and bankruptcy, the businessmen are under the necessity to restrict their production activities and therefore to reduce the number of men employed.

At the wage rates established in a free labor market, i.e., in a market not manipulated — we may better say: not sabotaged — by labor union or government compulsion, all those who are anxious to get jobs can find employment. But if wage rates are fixed above the potential market rates, unemployment of a part of the potential labor force develops. Mass unemployment becomes a lasting phenomenon.

It is not the operation of the market economy that generates unemployment with all its moral and material evils, but precisely the ill-contrived, although well-intentioned actions of unions and governments. There is no other means to do away with unemployment than to abstain from any government and union meddling with the height of wage rates.

Inflation Not Fit To Fight Unemployment

The self-styled American liberals propose to do away with unemployment by inflation. They suggest an increase in the quantity of money in circulation through credit expansion.

Lord Keynes who did not invent this makeshift but merely popularized it was well aware of the fact that inflation reduces the purchasing powers of the masses. One cannot avoid the nefarious implications of the spurious union doctrine by deceiving the public. Moreover it must be remembered that inflation is not a policy that can last. If inflation and credit expansion are not stopped in time, they result in a more and more accelerated drop in the monetary unit's purchasing power, in skyrocketing commodity prices until the inflated money becomes entirely worthless and the whole government-manipulated currency system collapses. This is what in our age happened to the monetary regime of various countries.

How Honest Workers Plan To Do Away with Unemployment

An analysis of the Keynesian prescription for doing away with unemployment clearly shows that also Lord Keynes never doubted that what causes unemployment is a policy that fixes wage rates above the level at which the free market would have fixed them. What he suggested to attain full employment was a peculiar — as he believed, very cunning — method to reduce real wage rates. In fact all people who gave serious thought to the matter agree in pointing out that at the wage rates determined on the unhampered labor market all those eager to find jobs are getting them. Incidentally it may be mentioned that also Karl Marx and the doctrines of the Marxian parties admitted that unions as well as governments cannot, without creating unemployment, raise wage rates above the rates corresponding to the conditions of the market.

The terrorism of the union bosses and the political parties fed by ample union subsidies has for many years succeeded in popularizing the myth that expects a betterment of the wage earners' material conditions not from an increase in the per head quota of capital invested and the resulting technological advancement but from government action and from union violence. But fortunately it is impossible for lies to remain unchallenged forever. There are signs that the truth about industrial relations is beginning to spread in spite of all endeavors of the union bosses to conceal it.

While the Administration and Congress are embarrassed by the rising tide of unemployment and do not consider any other methods to reduce it than resorting to inflation, from the midst of the unemployed better schemes are recommended. In Wheeling, West Virginia, a community on the Ohio River, an unemployed steelworker named Thomas E. Elliot, who has worked only a month and a half in the past four years, advances an anti-unemployment plan that does not require any aid from Washington. His plan as outlined in U. S. News and World Report, is to offer to prospective employers better and cheaper labor. He and 1400 other unemployed will promise any company coming in that they will do an honest day's work at a fair wage, but expect, if the plant makes a profit, to get additional pay. The idea that guides them is: better to have a job at $1.85 or $2.00 an hour than to remain unemployed while asking for 3 dollars an hour.

If this plan materializes a plain citizen will have contributed to the welfare of the nation and its manual workers more than all the learned advisers of the Administration and all the members of the innumerable government agencies. Good luck to you, Mr. Elliot!