



The Evolution of a Wage-Adjustment System : II

by

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In the first of this series of articles it was stated that the chief purpose of the study was to illustrate and emphasise a certain "method of procedure" for the evolution of a wage-adjustment system. In the proposed procedure, the initial stage, discussed in the previous article, was shown to be that of finding the means of distinguishing the fundamental character of disputes — it being essential at the outset to determine which parties are ultimately affected in any given case. When it has been possible to classify disputes according to the parties actually involved in them, the way is open for the consideration of the two remaining stages of the procedure: the discovery of the criteria for determining the "just" wage; and the devising of the data necessary to show how far in the direction of the "just" position it would be desirable, in existing circumstances, to press the wage. The present article is concerned with these two final stages of the procedure.

IV. CRITERIA OF JUSTICE

One primary condition to be fulfilled, if Justice is to be carried effectively into the sphere of industrial relations, is that the interpretation given to the idea of Justice shall be that of the people as a whole. In other words, the criteria to be applied for deciding what is just in trade disputes must be those accepted by the community in general. It is with the community that the enforcement or rejection of decisions ultimately rests; in consequence, the only criteria which can survive are those which yield decisions satisfying to the public mind.

An analogy from the sphere of civil law may make this point more evident. Judges, when applying the idea of justice to any given lawsuit, make no attempt to define their own independent sense of what is right, but seek first for principles established and confirmed through long acceptance by the people; then, for guid-

ance in special cases showing variation from the general rule, they look for precedent. Always, they base their decisions on some principles or previous findings which have gained the approbation of the community in general.

Similarly, the introduction of justice into industrial affairs means the application, not of any individual's concept of this ideal, but of the concept of the generality of men. And in the consideration of wage disputes, the discovery of what is just in any given case involves the finding of some well-established principle of justice, or some custom acknowledged by the people, which has a bearing on wage disputes, and will indicate which way the public decision would go in the case at issue.

The actual process of discovering what is just in wage disputes may be re-outlined as follows. The first step (discussed in the previous article) is that of enquiring into the nature of disputes to determine whose interests are ultimately at stake. On the surface each case represents a conflict of interest between wage-earners and non-wage-earners; but owing to the peculiarly protected situation of the latter group they are frequently able to shift the burden of a rise of wages on to other wage-earners by raising prices or by reducing employment. In such a case the dispute becomes converted into one in which the conflict of interests is essentially between wage-earners and other wage-earners.

In the previous article, the statistics necessary for showing the true nature of disputes were discussed; and a scheme of tests was suggested for classifying cases into two broad groups: (i) those which are substantially of the character "wage-earners versus *non-wage-earners*" and (ii) intermediate cases, and those bearing the character "wage-earners versus *other wage-earners*". The process, now to be considered, of discovering the "just" wage entails the separate examination of each of these types, with a view to showing what criteria of justice would be in the public mind for application to such disputes.

This process will be illustrated here by the examination, first, of group (i) above.

(i) *Disputes which are Substantially of the Nature*
"Wage-earners versus Non-wage-earners"

The type of dispute to be considered under this title is that in which, if a rise of wages be secured, the increase will probably be paid out of the profits of the industry immediately involved, and

will not lead to the transfer of the burden to other sections of the community. It is the case in which wage-earners may gain definitely at the expense of non-wage-earners. The question is : In the common view, ought the workers to secure a rise ? And if so, how much ?

A criterion will be suggested here as yielding the solution in this case — a criterion which is already widely used¹ — and the attempt will then be made to show, first, that the criterion is likely to conform to the majority opinion of what is equitable ; secondly, that if it is not at the outset voluntarily applied, it will ultimately force its way into application through a certain inevitable and undesirable train of economic circumstances.

The criterion to be suggested, then, is " Pay what the industry can bear ". More precisely, this should be re-stated as " Pay as much as the industry can bear without passing on the burden to workers elsewhere ". (If the extra wage cost is passed on to workers in other fields, then the dispute falls into the second group, " wage-earners versus *other* wage-earners ", to be discussed below.)

The interests of other workers begin to be involved, it is to be noted, either when the increase of wages causes excessive bankruptcy and unemployment amongst the weaker sections of the industry, or when the increase is offset by a rise of prices to the consumer. Hence, the final definition of " Pay what the industry can bear " is : " Pay as much as the industry can bear without either raising its prices or causing serious unemployment. "

The question then arises : How fully is this criterion supported in the public mind ?

The first point of significance bearing on this question is that the wage-earners' share of the national income ranges between 52 and 56 per cent. — little more than half the total. This is despite the fact that they far outnumber the rest of the community.

There exist, in fact, marked inequalities in the distribution of income ; inequalities which are sufficiently pronounced to offend the public sense of justice. As will be observed later, some degree of difference in income and wealth appears to be acceptable to both wage-earners and non-wage-earners ; but as the differences become extreme they become progressively less tolerable.

¹ In his *Collection of Decisions presenting Principles of Wage Settlement* (New York, 1924), Professor FEIS examines exhaustively the awards given in the United States, Great Britain, Canada, and Australasia, and shows that the criterion to be suggested here is one of the two most widely applied.

The true basis for this common dislike of inequality may be difficult to find; probably it arises from a variety of mutually dependent grounds. With some it may be due to the instinctive desire in man for harmony and "balance", coupled with the knowledge that where there is serious difference in possession, this must inevitably provide a basis for jealousy and discontent. With others it may be due perhaps to the sportsman's sense that all men should have an equal handicap, a fair start in life. In the minds of some, there may be a definitely scientific basis for their feeling. They may realise that the welfare of the community as a whole depends largely on the efficiency of the working force, and that the more adequately the nation's income is distributed amongst this group, the more assured is the progress and prosperity of the entire society. Or it may be appreciated that £1 spent by a working man may bring as much personal satisfaction and public advantage as £10 spent by a man of affluence, and that, accordingly, the transfer of wealth from the very rich to the very poor must produce a net social gain. Most important, for the majority of countries, is the knowledge that the total national income is itself so small that any marked inequality in its distribution must inevitably be accompanied by serious distress amongst those who lose in the division.

Whether or not they rationalise their thoughts, the majority have come to regard serious inequality as inequity. When they contemplate the present distribution of income quite objectively they reach the view that the differences in possession which it creates are a defect in existing civilised society.

The second main point affecting the public acceptance of this criterion is that, under the present economic system, only minor changes are possible in the present method of distribution. There can be no appreciable reduction of existing inequalities. Various different forms of income discussed in Section II — rent, interest, and certain types of profit — are determined in amount by laws not subject to human regulation, and are largely protected from incursions by wages. The Wages-Proportion itself remains a highly inflexible amount.

From these two main considerations, a combined argument is derived. If it be assumed that, in the general consensus, the existing inequalities of income are displeasing; and if it be assumed also that these inequalities cannot be materially diminished: one may deduce that whenever occasions do in fact arise when the wage-earners' share can be increased or prevented from declin-

ing, advantage should be taken of these occasions. In other words, when an industry can afford, out of its own profits, to pay higher wages to its employees, it is desirable that the greater payment should be made.

If this process of reasoning be acceptable, there would seem to be an adequate basis of public opinion to justify the application of the criterion "Pay what the industry can bear" to disputes of the character "wage-earners versus *non-wage-earners*".

From this point we must proceed to the consideration of what would happen if the criterion were *not* applied in disputes of this character.

When industries are in the situation of being able to pay higher wages out of their profits, it is usually because they have increased their efficiency; they have discovered more economic methods of production. In such cases they are able to produce the same quantity of goods with less labour, or more goods with the same labour. In either circumstance, *if wage rate remain the same*, the output of goods must increase relatively to total wages. If this situation is fairly general, the effect of increasing efficiency, coupled with stable wage rates, is to produce an excess of output over consuming power.

Whenever a surplus of unconsumable goods arises, a slump in trade inevitably follows. The existence of heavy stocks leads to a fall of prices and the depression of the market; and this decline must continue until the excess goods are taken off the market. A slump in trade may arise from causes other than the failure of wages to keep pace with production; this itself, however, is one unfailing cause. The weakening of demand through the relative decline of wages may not immediately be felt; but its effects are cumulative, and sooner or later it must result in a general overflow of goods and precipitate depression¹.

Thus the one advantage of raising money wages at the outset, in proportion as efficiency increases, is that the slump is thereby avoided and the loss both to wage-earners and to non-wage-earners is escaped. If, in all industries, an increase of efficiency were accompanied by a corresponding rise of wages, there need be no decline in consuming power and no collapse of trade.

The observed stability of the Wages-Proportion has been regard-

¹ For an extensive account of the manner in which the failure of wages leads to trade depression, reference might be made to J. A. HOBSON: *The Economics of Unemployment* (London, Allen and Unwin, 1922). See also an article by FOSTER and CATCHINGS in *The American Federationist*, Jan. 1926.

ed earlier as evidence that there are certain powerful economic forces preventing wages from being forced upwards at the expense of other forms of income. The same evidence might equally be used, however, to show that strong forces impede any decline of the Proportion, and that, if wages are not *voluntarily* increased whenever the total output grows, the share of the workers is re-established by some effective economic process. This process can be no other than the slump in prices and in trade — a remedy too drastic to be accepted if there is any means of avoiding the necessity for it. As already noted, the raising of wages step by step with the increase of efficiency is not the only condition necessary to prevent a slump in trade; but it is one condition. And this condition can be best fulfilled by the consistent application of the criterion “Pay what the industry can bear” to every case in which the industry can afford to meet an increase of wages out of its own profits, i.e. to all disputes having the character “wage-earners versus *non-wage-earners*”.

This criterion is therefore suggested, in the wage-adjustment system here proposed, as the means of showing what is just and universally acceptable in all disputes falling within category (i).

(ii) *Intermediate Cases, and Disputes of the Type*
“Wage-earners versus other Wage-earners”

The second group of cases to be considered comprises all disputes not included in the first; that is, disputes in which there is a possibility, amounting usually to a probability, that if a rise of wages is conceded, this will be at the expense of wages elsewhere.

This type of dispute raises the difficult question of the manner in which wages ought to be related to each other. If the raising of wages in one part may mean the decline of wages in another, by what criteria can it be determined when this ought to be permitted? At present wage groups are ranked with each other according to no principle whatever; each group strives independently for an improved position in the rank; and when one group is successful in attaining to a higher place, the others, which it supersedes, fall back one pace¹. The problem arises then: Ought there to

¹ This metaphor may be rather misleading; if the whole rank is advancing uniformly (i.e. if wages are rising evenly, keeping pace with a general improvement in efficiency), there need be no supersession of one wage group by another. However, if there is no increase in efficiency, the advance of one group must mean the stepping back of others, which is the case we are now considering.

be any order or principle in this ranking ? If so, what is the principle to be adopted ?

Otherwise expressed, the problem involved here is the discovery of what constitutes "Justice" when the interests of different groups of wage-earners are in conflict. To this end, it is necessary to decide how the community as a whole would wish to adjust payment as between different classes of workers. Would the general consensus be that all ought to be paid alike ? Or would there be a desire to discriminate ? And, if discrimination were desired, on what basis would the different wage groups be graded ?

Let the initial alternatives be taken first : equality throughout industry ; or inequality. Is it possible to discern in current tendencies of thought or custom some public acceptance of the one policy or the other ? In practice, there has doubtless been a considerable widening of the range of pay as between industry and industry ; and this might be regarded as evidence that public sentiment is moving towards the recognition of greater inequalities than heretofore. However, it might justly be contended that these increased disparities are due to a lack of the power, rather than of the desire, to co-ordinate the different rates of pay, and that, at bottom, the general sentiment is 'owards the levelling up of wages. Within the trades themselves and in the various industries, where co-ordination has in fact proved possible, the common tendency has been towards equalisation ; flat rates and universal minimum rates have emerged in the separate trades ; and the scales of pay applied in industries comprising many trades have been reduced in width.

The trend of public sentiment would seem therefore to be rather in the direction of equality than inequality. Nevertheless, there is little ground for the belief that a majority would favour *absolute* equality throughout industry. If the larger industries, grouping together many trades, had shown themselves in favour of a flat rate covering all the trades, then it might be said that the time was drawing near for considering the equalisation of wages throughout the community. At present, some degree of inequality is the accepted practice. And the practice is still widespread enough to suggest that it is not merely voluntary, but commonly desired.

If, therefore, inequality be desired in some degree, the further problem arises : On what basis are the differences between wages to be determined ? Some principle must be found for grading the various trades — a principle which expresses the public concept of what is just.

For this purpose it would seem necessary to be guided once again by widely established practice. The problem of grading trades in the scale of pay arises in a minor way in a large number of industries; and the solution given to it is always the same: the trades are ranked according to skill¹.

The adjustment of the various occupations in order of precedence according to skill raises difficulties for most industries. One outstanding difficulty is that this chief criterion has always to be weighted by that of "expectation". Thus, although the character of one trade may change completely, involving greater or less skill, the rate of pay for the trade cannot immediately be changed, because those who entered it had an "expectation" of a certain continued standing and remuneration in that trade. This and other practical obstacles may render difficult the arrangement of the scale in accordance with what is considered to be, in the long run, just; nevertheless, the fundamental aim in view, and the basis of the adjustment, is the ranking of trades in the order of their skill.

The general acceptance of this criterion may be due to a deep-rooted belief that all men have a rightful claim over that which they are able to produce. A man's output is essentially a part of him: the fruit of his own especial talent. He that possesses greater talent can produce more goods, or goods of higher value; therefore he has the right of command over his superior product, or over its equivalent value. Similarly with groups of men: if one group, highly skilled and producing goods of special workmanship, is compelled through some peculiar twist of the economic system to receive less than its compeers in other trades, the public sense of justice is offended. Again, if groups of workers are combining in the production of some joint product, it is held that they should be rewarded mainly on the basis of their contribution to that product; and this, in turn, depends upon their skill.

The criterion "Pay according to skill" apparently reflects most fully the sense of Justice of the present time; and it is accord-

¹ In his *Collection of Decisions* (p. 112), Professor Feis states that in establishing or revising wage differentials for trades in the same industry "the principles most generally used are (1) that they should justly represent the differences in training, skill or other abilities required for the different kinds of work, (2) that they should allow for differences in advantage and disadvantage in the different kinds of work, (3) that they should be sufficient to attract into every one of the occupations (especially the skilled ones) a sufficient supply of labour and no more." From the definition given subsequently to the term "skill", it will be seen that the criterion favoured in these pages virtually covers all the three principles quoted.

ingly suggested here as the true criterion for showing the just solution in wage disputes which involve the interests of different groups of workers.

Whenever a dispute arises, in which the raising of wages in the trade under consideration might affect adversely wages in other spheres, the question should be asked: How does the trade stand in relation to other trades involving equal skill? The direction¹ of the "just" wage for the given trade would be shown by this comparison with other trades.

The criterion would be of little practical value, however, if, on each occasion of its use, a new selection had to be made of trades of similar skill. The task of picking out the trades each time would be unduly onerous, and there could be little assurance that the selection would be inclusive. What seems necessary, to permit the criterion to be speedily and effectively applied, is to grade all trades in one complete list, which might then be used for reference at any moment by a wage-adjustment board. In the list, the trades would be grouped into fairly broad classifications according to their skill, the number of classifications depending largely upon the accepted practice in the various industries of the country. A division into five or six groups would be of some value; but if it could be extended to ten or twelve this would be better, and would be fully satisfactory for the purpose suggested here.

The difficulties which would be encountered in the preparation of such a list are numerous and not easily overcome². The method suggested below might, however, prove not ineffective.

At the outset it would be necessary to define clearly the term "skill". This term would be taken to include all talents required in industry: intelligence, dexterity, courage, endurance, and others; the value of the talents being determined by their scarcity in relation to the demand for them in industry. For instance, the faculty of tone-appreciation of a piano-tuner may be a gift of great rarity; but it is relatively little in demand in industry; the value of the talent is increased by its scarcity, and reduced again by the small demand for it.

¹ The question *how far* in the direction of the "just" wage it would be desirable to move the disputed wage position is reserved for the next Section. At present the concern is only with the direction in which "justice" is to be found.

² It is impossible here to do more than present certain very broad proposals for the building up of a wage-adjustment system. The difficulties and the dangers confronting the application of proposals of this character are reviewed very fully by Mrs. BURNS in *Wages and the State* (London, P. S. King, 1926), an admirable critical analysis of past efforts in the sphere of arbitration.

After the careful defining of the term, the preparation of a list of trades grouped according to "skill" might be effected by a combination of several processes.

First, all trades would be closely examined, and the operations they entailed would be fully analysed. From this purely objective study, the trades would be graded in accordance with the skill they appeared to involve, and a list would be drawn up showing the result of the classification.

Quite independently, a further investigation would be carried out, under which all workers who had practised more than two trades would be invited to state the order in which the trades they had followed should be placed from the point of view of skill and pay. The results of this investigation would be shown on a separate list.

A further enquiry might be addressed to chairmen of trade boards and conciliation committees, to factory inspectors and other government officials in close contact with industry; and another schedule would be made on the basis of this enquiry.

Then a study might suitably be made of the gradings actually in operation in industries comprising a large number of trades. By placing side by side the lists of trades in any two industries, the trades on each list being ranked according to their accepted order of precedence, and by adjusting them so that trades in the list of the one industry fell opposite identical trades in the list of the other, one could show the relation of the whole range of the one industry to that of the other from the standpoint of skill. If this were done for all industries, a further schedule of skill covering a large proportion of trades might be prepared.

Finally, the situation might be examined in a country like the United States with a view to discovering the order in which trades tend to stand when the labour market is highly fluent and when discrimination in the price of labour is determined almost exclusively on the basis of skill. Care would be taken to include in the list only the trades which were identical with those of the country making the investigation.

The first list, based on the analysis of the actual operations involved in each trade, might then be compared with the remaining four, and adjusted to remedy any errors made evident by the comparison. In this way, one might hope to secure a final schedule showing, at least in broad divisions, the ranking of trades according to their skill. Such an instrument might conveniently be termed a "Schedule of Skill".

A Living Wage.

A Schedule of Skill of the type described here would show only the *order* in which the various groups of trades should stand ; it would not show the actual *wage rate* desired for each group. The wages being paid at the time in any group might not be considered satisfactory, and there might be a general desire to rearrange all groups with respect to each other. In particular, dissatisfaction might be widespread with the rates of pay received in the lowest grades.

For the purpose of deciding the actual wage-rate to be paid in each of the separate groups, it would be necessary to begin by considering the trades at the bottom of the scale. The initial task would be to determine how far the lowest groups would be allowed to fall below the average for all groups. For this purpose account would be taken of the civil status and responsibilities of the workers at these lower levels, i.e. whether they were mainly householders, or minors, or casual workers partly supported by other means ; and the wage would be computed in accordance with the standards recognised in the country. In other words, the " living-wage " principle would be applied to show what rates ought to be paid in the least fortunate groups in the scale¹.

Once the pay for the lowest groups had been fixed, the rates in the rest of the scale would follow automatically. The group previously receiving the average wage would continue in that position ; and the wage rates for the remaining groups would be interpolated. Thus, if there were ten groups, and the seventh group were receiving the average wage, the difference between this average wage and the amount fixed for the lowest group, divided by three, would give approximately² the wage-interval to be allowed between each group and the next.

In this way a Schedule of Skill might be prepared, in which :
(a) all trades are ranked in accordance with the skill they involve ;
(b) the living-wage principle is preserved ; (c) the actual amount payable to each group, if the foregoing criteria are to be satisfied, is shown opposite the group.

Such a schedule might therefore be used to show the direction

¹ A detailed analysis of and commentary on the methods now in operation for fixing minimum wages is to be found in *The Minimum Wage*, by J. H. RICHARDSON. London, Allen and Unwin, 1927.

² The wage intervals between the groups would depend to some extent on the size of the groups. The largest groups would probably be at the lower end of the scale.

in which "justice" is to be found in disputes involving the interests of different groups of workers.

The effect of using such a schedule would not be to impede the general advance of wages. It would signify rather that progress would be made by lifting those wages which were below their "just" position, and not by permitting wages already high to rise still further to the detriment of the rest. Moreover, the Schedule would be used only in those cases in which the interests of different groups of workers were in conflict. To the entire group of disputes bearing the character "wage-earners versus non-wage-earners" the criterion "Pay what the industry can bear" would be applied. And in proportion as this led to the increase of wages in industry as a whole, the wage rates appearing in the Schedule itself would be reassessed. The Schedule would, in fact, be used merely as a means of showing the due relation of trades to each other (a) at any given moment, and (b) in circumstances causing the gain of one group to be the loss of another¹.

In conclusion, it must be repeated that these criteria of justice can do no more than *point the direction* of the desired solution in any wage dispute. They show what is abstractly to be desired, in the opinion of the community in general. But we have early made the distinction between the "just" wage, as thus determined,

¹ Among the most effective experiments which have so far been made in the classification of trades according to skill throughout industry is that of the Arbitration Court of New Zealand. In 1919 the Arbitration Court established minimum basic rates for three broad groups of workers: skilled; semi-skilled; and unskilled. Having fixed these rates, the Court was then confronted with the need for classifying all trades in the country into the three groups, a task which it appears to have effectively accomplished. (Cf. J. B. CONDLIFFE: "Experiments in State Control in New Zealand", in *International Labour Review*, Vol. IX, No. 3, March 1924.)

It may be noted, however, that all the Australian courts of arbitration, when required to discriminate between trades, have based the differentials mainly upon the degree of skill involved in the trades. In the case of the Commonwealth Court of Conciliation and Arbitration, for instance, Mr. Justice Higgins divided the wage into two parts: the basic wage, or minimum below which no trade could fall; and the secondary wage, which was a further bonus varying according to the skill required. Mr. Justice Higgins explains his system in *A New Province for Law and Order* (Constable, 1922; p. 56) thus:

"I may add here that the Court, where necessary, adopts gradations in the secondary wage. For instance, after fixing the basic wage for unskilled labourers in the gas employees' case, it awarded 6d. per day for men classed as skilled labourers, 1s. per day more for men in charge of plant, etc., 2s. per day more for men of necessarily exceptional physical qualities, etc., such as stokers, and 3s. per day more for artisans fully trained."

The purpose of a Schedule of Skill such as that described above would be to avoid the necessity for making a new investigation into the character of the trades, and the skill-category into which they fall, on each occasion of dispute.

Amongst British experiments in adjusting wages to skill, Industrial Court Decision No. 728 is of special interest.

and the "most beneficial" wage which can in practice be achieved. The finding of the "just" wage comes first; it is in fact the necessary preliminary to finding the "most beneficial" wage. Once the "just" position has been discovered, and the desired direction of the wage decision thereby indicated, the "most beneficial" position is that point to which it is practicable, in existing circumstances, to move the wage in the direction desired. The method of determining the "most beneficial" wage is to be discussed in the immediate sequel.

V. THE FINAL DECISION

Once it has been shown that there are two distinct types of wage dispute, and that the one type must be examined on a different basis from the other, the procedure for dealing with wage disputes must remain throughout two-fold in character. The task in this section is therefore to follow up successively each branch of this forked procedure, and to show, first, in the case of disputes involving the interests of both wage-earners and non-wage-earners, and secondly, in the case of disputes affecting wage-earners alone, how the "most beneficial" wage position may be found, its direction having been pointed by the criteria of justice.

(i) *Disputes which are Substantially of the Nature "Wage-earners versus Non-wage-earners"*

For the purpose of showing how a wage-fixing board would arrive at its final decision in the case of disputes bearing the character "wage-earners versus *non-wage-earners*", the procedure of the board from the beginning might briefly be retraced.

At the outset the board would find itself confronted with a dispute concerning which it had only surface information. The first task would therefore be to examine the case with a view to discovering into what category it fell. For this purpose certain statistics would be required showing the condition of the industry affected. First, and most important, a chart would be needed (cf. Section III of the previous article) showing the amount and distribution of profits throughout the entire range of the industry. Then, a further chart would be needed showing the "normal" profit for the industry, i.e. the profit situation which accompanied

the steady development of the industry and which yielded a reasonable demand for labour. If the comparison of these two charts showed that the existing margin of profit was wider than the "normal", the presumption would be that a wage increase might be met directly out of the industry's profits and need not lead to unemployment or the raising of its prices to the consumer. In such circumstances, the dispute would be regarded as bearing the character "wage-earners versus *non-wage-earners*" — the class under discussion now.

After the nature of the dispute had been thus determined, the next point in the procedure of the board would be to consider the criteria of Justice applicable to such a case. In the wage-adjustment system suggested here, the principle to be applied would be "Pay what the industry can bear"; this being further defined as "Pay as much as the industry can bear without either raising its prices or causing serious unemployment". The final point to be decided, then, would be: By how much, precisely, should wages be raised, in the case at issue, in order to satisfy this criterion?

This question can be answered, it seems, with the aid of the same statistics as are required initially for revealing the nature of the dispute: namely, the charts of current and "normal" profit. Wages would be raised just to that point at which a "normal" profit situation would be again produced. For beyond that point, either the industry's prices would be raised, or unemployment would be created. And, in that case, the payment made would not be "what the industry can bear", but "what the industry, together with the consumer and the unemployed, can bear". The limit of what the industry alone can bear is reached when the "normal" profit situation again emerges.

Thus if one chart were available showing the current margin of profit throughout the industry, and a further chart depicted the "normal" profit, this would show the extent of the change desired; wages would be raised sufficiently to absorb the difference in profit shown by the two charts. (To this end, information would be necessary indicating what wage increase would, in fact, absorb the difference in profit shown by the charts.)

There might arise certain special occasions on which it would be desirable to raise wages still further: for instance, when, after the rise, the wage-position in the trade concerned remained still below the amount shown in the Schedule of Skill for the trade. Such cases, however, would immediately fall into the second cate-

gory of disputes, as affecting the interests of workers elsewhere, and their further examination would proceed along the lines followed for this second category (see below). In all ordinary cases of disputes falling into the first category, "wage-earners versus *non-wage-earners*", the "most beneficial" wage would be simply that wage which would yield the "normal" profit situation.

(ii) *Intermediate Cases, and Disputes of the Type*
"Wage-earners versus other Wage-earners"

The procedure to be followed by a wages board in the consideration of a dispute of this second type necessarily opens as before: the board must begin by discovering the fundamental nature of the dispute confronting it. The charts of current and "normal" profit would at the outset be compared, to determine whether a rise of wages could be paid out of the existing profits of the industry. If the current profit margin were shown to be no greater than the "normal", the presumption would be that any rise of wages would be followed either by a rise of the industry's prices, or by unemployment; and the interests of other workers would then be affected. The case would therefore be classed amongst disputes of the second group: intermediate cases and disputes of the type "wage-earners versus *other wage-earners*".

Following this, the application of the criteria of Justice to a dispute of this class would involve the examination of the Schedule of Skill to determine what wages would be recognised by it for the trade or trades concerned in the dispute. Let the case be first considered in which the "just" wage indicated by the Schedule was shown to lie *above* the wages actually being paid.

Case (a), in which the "just" position stands above the existing wage. Since Justice is the aim to be attained in all wage decisions, the fact that the "just" position lies above the existing wage would lead the wages board to raise the wage *as far as possible* towards the "just" position. And the board would need to decide up to what point it was practicable, in existing circumstances, to raise the wage.

For this purpose, the first requirement would be that of statistics, to show what would probably happen if wages were in fact raised. Two things, it has been noted, might result: an increase of the industry's prices, or the aggravation of unemployment in the industry.

Presumably the board would be little concerned about throwing

the extra burden of wages on to the community in the form of a rise of prices. The situation it is examining has been shown to be unjust on the ground that the wages in the one industry concerned are lower than those of others in the Schedule of Skill. The restoration of "justice" involves the raising of wages in this one industry relatively to and, if necessary, at the expense of wages elsewhere. The board would therefore be prepared to raise wages in the one industry, regardless of this being followed by an increase of its prices and a heavier burden to the consumer.

It could not similarly disregard unemployment, however. If a rise of wages were to result mainly in loss of work within the same industry, the burden of the rise would fall, not on the general consumer, but on a small group of particularly unfortunate workers within the industry. The conflict of interests would be between two sections of workers, each of which was in difficulties; and the problem would be: How far may those who are still employed be favoured at the expense of the unemployed?

Thus, in determining up to what point it would be practicable to press wages in the direction of the "just" position, the board would be concerned essentially with the amount of unemployment this would cause. And it would need special statistics to show the probable effect on employment of different increases of wages.

The method of revealing the effect on unemployment of stated wage increases would be to determine, first, what increase of prices would correspond to the increase of wages, and secondly, to what extent the market would be likely to shrink in response to each rise of prices. The reaction of the market, in turn, might be gauged: (a) by its previous reactions as evidenced in statistics of sales; (b) by a study of the extent of foreign competition; (c) by the consideration of the prices of substitutes.

With the aid of this statistical and other information relating to the market it would be possible to make a rough forecast of the effect of a wage increase on the shrinkage of demand, and on employment.

In striking the balance between the need for higher wages and the need for maintaining a reasonable level of employment, the wages board would be influenced, on the one hand, by the extent to which the existing wage position was depressed below the "just" position and, on the other, the degree to which unemployment was already evident in the industry, the provision made for unemployed persons in the country, and the possibility of transferring them rapidly to other occupations.

The decision would be to some extent arbitrary ; but the solution, theoretically, is clear : In disputes of the type now being considered, in which the " just " wage position lies above the existing level, the wage would be raised to that point at which the increase of unemployment would become prohibitive of any further rise.

Case (b), in which the " just " position lies below the existing wage. In the case of a dispute in which the raising of wages would be at the expense of wages elsewhere, if the wage under dispute were already above its " just " position as indicated by the Schedule of Skill, there would clearly be no question of raising it further. However, such a dispute might arise on the demand of employers for a reduction of wages ; and the problem would then be to determine criteria for deciding whether a reduction should be made.

The main criterion, it seems, should be the same as for case (a) ; that is, the chief factor to be considered should be the degree of unemployment in the industry concerned. If the grounds on which the employers pressed for a reduction of wages were the failure of the market and the diminution of profits — the only grounds likely to be given — this condition of affairs would be reflected accurately in the unemployment situation. The index of unemployment appears to be at all times the purest single evidence of the condition of the industry. Thus the problem of deciding whether a reduction will be desirable in wages would resolve itself essentially, as in the previous case, into that of weighing high wages against the need for a steady demand for labour.

There are, however, two new factors in the situation not appearing under case (a) above. One is that whereas in the previous case the " just " wage position was above, in the present case it lies below, the actual wages being paid ; which means that, if the interests of all workers were duly " balanced " in accordance with the communal sense of justice, the wage-earners in the one industry at issue would be receiving less in order that the others might receive more. This consideration would exert a certain pull in favour of readjusting wages downwards.

As opposed to this, there is the factor " expectation ". If a certain standard of wages has been set in any industry or trade, and has prevailed for a considerable period of time, workers are induced to enter it in the expectation that the standard will be maintained. Furthermore, those within its ranks will have adjusted their mode of life and their family responsibilities to con-

form to the established scale, leaving little margin to draw upon in the event of a reduction ; and a fall of wages brings a peculiarly acute form of disappointment and hardship. For these reasons, the voluntary pressing down of wages is to be deprecated, unless the purpose is to avoid greater hardship in the form of unemployment.

Since, therefore, the two additional factors noted in this case appear largely to offset each other, the chief criterion, unemployment, preserves its full initial weight. The degree of unemployment in the industry must be the essential determinant of the decision whether wages should be reduced, in any case in which the wage is above the " just " position shown in the Schedule of Skill.

General Conclusion concerning the Final Decision of the Board

The purpose of the present Section has been to discuss the final step in the procedure of a wage-adjustment board. Having determined, with the aid of the criteria of Justice, the direction in which it would be desirable, if possible, to move the wage, the board would need to decide how far in that direction the wage should actually be moved.

The solution reached is briefly as follows.

In the case of the first main group of disputes — i.e. those in which wages may be increased at the expense of profits in the same industry, and which are therefore classed as " wage-earners versus non-wage-earners " — wages would be raised. The point to which they would be moved would be that at which a " normal " profit situation would again emerge for the industry concerned.

In the case of the second group of disputes — i.e. those in which the raising of wages may be at the expense of other wage-earners — reference would be made to the Schedule of Skill to discover the " just " position for the wage. If the current wage position were *below* the " just " position shown in the Schedule of Skill, the decision of the wages board would be to raise the wage to that point at which the degree of unemployment in the industry would become prohibitive of any further rise. Whenever the current wage position stood *above* the " just " position shown by the Schedule of Skill, a relatively minor degree of unemployment would provide grounds for the reduction of the wage, but there would be no reduction unless such unemployment were in fact prevailing.

The Method of Procedure

In this brief outline there has been no pretence to construct a final argument on each point at issue ; if solutions have been offered, this has been essentially with a view to providing a foundation for the next step in the reasoning, and so giving cohesion to the general structure of the wage-adjustment system. What has been attempted, however, at every point, is to emphasise the character and the sequence of the problems to be treated. For, it is of much less interest at the outset that the problems should be solved, than that they should be set. If agreement could be reached upon the mode of laying out the various questions arising in a wage-adjustment system, and on the order in which these questions must be broached, probably the most serious barrier to the evolution of such a system would be at once removed.

It was this thought which dictated the form and emphasis of the present notes. The attempt has been made to show that there arises a definite series of quite inevitable problems, each of which must find solution in any attempt to set up a concerted scheme of wage adjustment ; and that there is a certain logical order in which they should be treated.

The order in which the problems have been considered here conforms to that which a wage-adjustment board would follow if it were to approach disputes from the standpoint of society as a whole. Its first task would be to determine what parties were mainly interested in the dispute. The method suggested here, and the statistics proposed for classifying wage disputes, may not be ideal ; but some method must inevitably be found ; otherwise the board proceeds to settle a dispute between unknown parties !

Having distinguished the fundamental character of the wage dispute, the board must then decide in what direction it would desire, if practicable, to move the wage. It must discover some ideal to serve, some wider purpose to be attained by the projected readjustment of the wage. Thus, if the wages board views its problem from the standpoint of the community as a whole it must adopt as its main objective the community's idea of Justice. This, it has been noted, is not only logical, but it is in the long run unavoidable ; for only that which shows conformity with the public sense of what is right is sure of permanent acceptance. Hence, the second main task for a wage-adjustment board is to

discover those criteria of Justice which would be in the public mind for deciding the dispute. This must therefore be the second task considered in the establishment of a general wage adjustment system.

The third and final step is equally determined. Having decided what wage position would conform to the communal sense of justice, and having therefore found the direction in which the wage is to be moved, the board must then determine how far in that direction it would be advisable to move the wage, given the existing situation. To this end a plan of statistics must be devised for indicating how the industry itself and the community as a whole will be affected if the wage is moved towards the ideally "just" position.

The case for this method of procedure for working out a wage adjustment system seems well supported ; but even if this were not so, one important point has yet been gained if it has merely been possible to show that the present need is for all attention to be concentrated on this question of procedure. Once there were general agreement on the actual character of the problems to be solved, and on the order in which they logically present themselves, it would seem but a short step further to decide whether the problems themselves are capable of solution ; and if it were possible to make this decision concerning each of the separate problems, it could then be seen at once whether the establishment of a wage-adjustment system as a whole is or is not practicable.

(To be continued.)