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Economic inequality

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THESIS

Economic Inequality

by

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PART I

Introductory Examination of Concepts

When Thomas Jefferson made that now famous statement: "We hold these truths to be self-evident, that all men are created equal; that they are endowed by their Creator with certain inalienable rights; that among these are life, liberty and the pursuit of happiness," [1] it is believed that he meant, so far as "equal" is concerned, equal in rights. Jefferson was too well-informed to believe that all men are created equal physically, or mentally, and certainly not financially.

It is the economic inequality that we wish to inquire into here and in order to come to some intelligent understanding of the question we must inquire into the factors that constitute our economic status; namely, national wealth and income. That the national wealth and income is not divided equally no one will question, but quite a debate could be had on the question whether or not wealth and income are properly divided.

The capitalistic economists believe that for the good of society a certain part of wealth, (savings), must be accumulated for investment in order to produce income and we have no quarrel with them regarding this opinion.

1. The Declaration of Independence.

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1. Work Done by Other Writers in the Field.

Nothing has been written on the subject from the approach of this work, so far as the writer has been able to ascertain. It is true that almost every modern writer on the principles of economics has touched on certain phases of the subject, from the seventeenth century writings of the Mercantilists in England, and the Cameralists in Germany, down to the present day; however, it is not until the appearance in the eighteenth century of Cantillion and the Physiocrats that we find the first glimmerings of a theory of distribution.

From this time on Adam Smith, Bentham, Malthus, St. Simon, Ricardo, McCulloch, Mill, Marx, Marshall, Jevons, Walker, Ely, Rignano, Taussig, Pigou, Cannon, Hobson, Read, Tawney, Wedgwood, Davis, Brown, and many others have written on various phases of the subject, but none have attempted, it is believed, to treat the subject as concretely as is attempted here.

2. The Basis of this Work.

The facts regarding income from 1900 to 1929, charts and tables regarding family expenditures, and certain comparisons pertaining thereto, were taken from the Brookings Institute study made under the direction of Harold G. Moulton and others, and published under the titles of America's Capacity to Produce, America's

Capacity to Consume, The Formation of Capital, and Income and Economic Progress.

In addition to the above, "Equality," by R. H. Tawney, "Work and Wealth," by J. A. Hobson, "Capitalism and Its Culture," by Jerome Davis, various reports of hearings before, and studies by the Federal Trade Commission were used freely and together with those studies by the Brookings Institute, mentioned above, really form the basis of this work.

3. <u>The National Income</u>.

R. H. Tawney, in the introduction to his book "Equality," says: "The economic prosperity of the United States is due, in the main, to a combination of natural endowments and political conditions, unrivalled supplies of coal, iron ore, timber, and land together with a single market of a hundred million purchasers, which makes profitable mass production on a scale unknown elsewhere." [1]

(a) <u>What is National Income</u>. How much is the national income and of what does it consist? The Encyclopedia of Social Science, Volume II, page 105, defines the national income as "net total of commodities and services (economic goods) produced by the people

1. Tawney, R. H. "Equality," 1931, p. 3.

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In addition to the poems, [illegible]

2. [illegible]

[illegible] says: "The [illegible]"

(a) [illegible]

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1. [illegible]

comprising a nation — the total of such goods received by the individual members of it in return for their assistance in producing commodities and services — the total of goods consumed by these individuals out of the receipts thus earned -- the net total of desirable wants enjoyed by the same individuals in their double capacities of producer and consumer." H. G. Moulton, in "America's Capacity to Consume," Chapter I, states it thus: "Income consists, in fundamental terms, of the goods and services resulting from the productive activities of the people. The net volume produced by the nation within a given period".[1]

We produce each year three broad classes of commodities. The first is made up of consumption goods and services, which go directly for the satisfaction of human wants, such as the ordinary necessities and conveniences of life. The second consists of capital goods in the form of additions to the productive resources of society. The third represents replacement of plant and equipment used in the process of production. The third adds nothing to wealth, hence is not properly income. The foregoing makes it clear that national income consists of food, shelter, clothing, savings, pleasure and all that go to constitute

1. The Brookings Institute Study, "America's Capacity to Consume, 1934, p. 9.

the needs and desires of a nation's population. The food and shelter that is furnished a farm hand, the share of crops given the landlord as rent, the uniforms, vacations, etc., furnished certain types of employees constitute income just as surely as do money payments.

(b) The Amount and Source of the National Income.

Let us look for a moment at the size and growth of the national income. According to government statistics the national income for the year 1929 was approximately eighty-one billion dollars (one billion of which was held in corporate surpluses), as compared with approximately thirty-six billion for the year 1932. Between the years 1900 to 1929 the annual national income increased nearly fourfold, while the adjusted increase, after adjustment for price changes, appears to have been only 120 per cent.[1]

Population increased from 76 millions to 122 millions - 60 per cent - consequently the figures of aggregate income are not a proper measure of the increase in the standard of living, or of the increased productivity of our economic system.

The per capita income of the United States has been increased (1900-1929) 38 per cent and the per capita expenditure of human time and energy has decreased 12 or 13 per cent. This means that in addition to

1. Brookings Institute Study, "America's Capacity to Consume," p. 15.

increase in per capita income of goods and services, we have obtained the satisfactions that come with greater leisure.

The division of national income between industries for the year 1929 appears as follows:

Manufacturing	23.4%	Contractors	4.2%
Trade	16.9	Professional Services	4.1
Agriculture	10.4	Mining	2.7
Transportation and Communication	9.2	Insurance	1.8
Government	8.4	Other Services	1.8
Personal and domestic Service	4.7	Banking	1.7
		All Others	10.7
		Total	100.0%

The percentage for agricultural income fell from 20.5 per cent in 1918-19 to 10.4 per cent in 1929, as stated above.

The per capita income for the United States (1929) was $541.00 as compared with $401.00 for Canada, the next highest.

The sources of individual incomes on a percentage basis as compiled by the Revenue Department for the year 1928 are shown in the following schedule.

SOURCES OF INDIVIDUAL INCOMES [1]

On a Percentage Basis

Year 1928

	Under $5000	$5000 to 10,000	$10,000 to 25,000	$25,000 to 50,000	$50,000 to 100,000	$100,000 to 150,000	$150,000 to 300,000	$300,000 to 500,000	$500,000 to 1,000,000	Over 1,000,000
Wages and Salaries	61	45	32	22	16	12	9	6	4	2.
Business	15	17	12	7	4	3	3	2	2	.21
Partnerships	4	7	8	7	8	9	11	13	12	7.
Profit from Sale of Real Estate and Securities	2	7	15	22	28	34	41	44	50	59.
Rents and Royalties	6	5	4	3	2	2	1	1	1	1.
Interest on Government Bonds		1								
Dividends on Stocks of Domestic Corporations	1	9	18	26	30	31	29	28	26	26.
Fiduciaries	4	2	2	3	3	2	1	1	1	.34
Other	7	7	9	10	9	7	5	5	4	4.45

1 Revenue Department

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4. Equality and Inequality.

(a) Equality. From the Encyclopedia of Social Science, Volume V, page 574, the following is quoted: "The equality of opportunity the career open to talents - men are born with quite different capacities, but for that very reason they should be given an equal chance to bring out what is in them. But the son of a laborer and one of a millionaire do not get equal opportunity due to different environment." The question of inequality due to environment is of far more importance than is evident on the surface. Suppose, for illustration, a very possible case of identical twins (boys or girls) born in a mountain district of the south. Some catastrophe happens in the family that causes one of these children to be adopted by a family in fairly good circumstances in the city. The child left in the mountain district grows up without culture, with but meager education and and with absolutely no knowledge of the possibilities of attainment in life, even though it might have had great ambition and could have, through sheer will-power and determination, contributed much to the world's knowledge, needs, or pleasure. He might have become an eminent physician, engineer, lawyer, minister, or she might have been able to capture and hold at her feet a music-loving world, as did Madame Ernestine Schumann-Heink, but the boy or girl was denied the opportunity of even knowing

that there was such service to render, to say nothing of having the opportunity of preparing himself or herself for such service. On the other hand, the sister or brother reared in the city and, let us say, with the added advantage of being in a cultural atmosphere (which, however, is not always true in the city), learns of the important places in life to be filled, reads of the accomplishments of great men and women, has the opportunity, through knowledge of these facts, to aspire to greatness and learns of the possibilities of accomplishment. Even though he has to pay his own way, or part of it, he learns that others have done it and are doing it. It opens up an entirely different world to him than is seen from the valley of his brother's mountain home. Multiply this difference, if you will, by many times and you have the opportunity of a boy reared in wealth and luxury - the boy who would experience difficulty in understanding or making himself understood in the mountain shack by the roadside. This is not the theory of some fanciful dreamer, but hard facts learned by experience in both environments above mentioned.

Equality before the law recognizes innate differences in men. A cleptomaniac receives more consideration before the court than does an ordinary thief, and a moron or a mental defective person is dealt with in accordance with his ability to discern right from wrong.

But, on the other hand, a man who steals a million dollars can afford to engage criminal defense lawyers with outstanding reputations and if he does not go free entirely his sentence will probably be no greater than another who steals twenty dollars because he has a hungry family at home. Inequality in all other fields, except economics, is recognized, but in that field some express the belief that the law of supply and demand will ultimately regulate such economic differences as should be regulated.

"Government by experts is with difficulty reconcilable with the idea of political equality. Never were men so like one another, says 'Santayana,' and yet so divided."[1]

Lest the writer be misunderstood in his position and be accused of being a Marxian Socialist let the question be answered now by stating that it is the individual that he holds a brief for, while Marxism is concerned primarily with the rational organization of production.

History shows that progress is being made in the direction of liberation of those bound by the chains of inequality. The numbers of those on the less favorable side of inequality who continue to believe that such inequality should exist grow fewer each year as more opportunity is afforded them to learn the facts. And in

1. Encyclopedia of Social Science, Vol. 5, p. 575.

behalf of many on the more favorable side let it be said that more of them are seeing the true light on this question and, that further, the progress that has been made is due largely to their efforts. Among such stand Lord Shaftesbury of London, Robert Owen of Utopian fame, our own Andrew Carnegie who, by the endowing of public libraries, brought opportunity through education to many who could not have afforded to purchase books. Add to those named the many who, through Parliament, Congress and legislature, have fought the battles of the under-privileged and we have quite an army who have fought and are fighting a worthy cause and to whom those on the less favorable side of inequality owe much.

(b) The Religion of Inequality. But this has not always been true. One has to think back no further than the days of the English manor to recall the serf who believed that because he was born in such surroundings he had no right to aspire to anything higher, that by some divine will his lot was cast and he was to make the best of it. We are not discussing the question as to whether they fared better, as a class, then than they have since the agricultural and industrial revolutions. Many have argued that the American negro was in a more favorable position as a slave than he has been as a free man. Looking at it

from the short-range viewpoint we will agree, but from the long-range point of view this certainly is not true. It is true from the short-range viewpoint only because of economic, political and racial difference, the first two of which were due to his lack of education which, again, was the result of unequal opportunity. R. H. Tawney, in his book, "Equality," Chapter II, under the caption The Religion of Inequality, says: "On the one side inequality harms by pampering; on the other side by vulgarizing and depressing. A system founded on it is against it and in the long run breaks down. One of the regrettable, if diverting, effects of inequality, as those who will examine their own consciences will agree, is its tendency to weaken the capacity for impartial judgment."

THE NUMBER AND INCOME OF FAMILIES BY INCOME CLASSES [1]

Income Class (In Dollars)	Total in Each Class: Families: In Thousands	Total in Each Class: Families: As Percentage of Total	Total in Each Class: Income [a]: In Millions of Dollars	Total in Each Class: Income [a]: As Percentage of Total	Cumulative Totals: Families: In Thousands	Cumulative Totals: Families: As Percentage of Total	Cumulative Totals: Income: In Millions of Dollars	Cumulative Totals: Income: As Percentage of Total
Under 0 [b]	120	0.437	-615	0.797	120	0.437	-615	-0.797
0 to 500	1982	7.214	596	0.773	2102	7.651	- 19	-0.024
500 to 1000	3797	13,820	2919	3.785	5899	21,471	2900	3.761
1000 to 1500	5754	20.943	7197	9.333	11653	42,414	10097	13.094
1500 to 2000	4701	17,111	8167	10,590	16354	59.525	18265	23,684
2000 to 2500	3204	11,626	7153	9,276	19558	71,187	25417	32,960
2500 to 3000	1988	7,236	5433	7,045	21546	78,423	30850	40.005
3000 to 3500	1447	5.267	4678	6.066	22993	83.690	35528	46.071
3500 to 4000	993	3.614	3710	4.811	23986	87.304	39238	50.882
4000 to 4500	718	2.613	3041	3.943	24704	89.917	42279	54.285
4500 to 5000	514	1.871	2437	3.160	25218	91.788	44716	57.985
5000 to 6000	666	2.424	3632	4.710	25884	94.212	48348	62.695
6000 to 7000	407	1,481	2628	3.408	26291	95.693	50976	66.103
7000 to 8000	252	0.917	1883	2.442	26543	96.610	52859	68.545
8000 to 9000	172	0.626	1459	1.892	26715	97.236	54318	70.437
9000 to 10000	128	0.466	1218	1.579	26843	97.702	55536	72.016
10000 to 15000	304	1.107	3666	4.754	27147	98.809	59202	76.770
15000 to 20000	108	0.393	1856	2,407	27255	99.202	61058	79.177
20000 to 25000	59	0,215	1309	1.697	27314	99.417	62367	80.874
25000 to 30000	35	0.127	965	1.251	27349	99.544	63332	82.125
30000 to 40000	40	0.146	1395	1.809	27389	99.690	64727	83.934
40000 to 50000	22	0.080	984	1.276	27411	99.770	65711	85.210
50000 to 75000	27	0.098	1616	2.096	27438	99.868	67327	87.306
75000 to 100000	12	0.044	1036	1.343	27450	99.912	68363	88.649
100000 to 250000	16	0.058	2164	2.806	27466	99.970	70527	91.455
250000 to 500000	4	0.015	1500	1.945	27470	99.985	72027	93.400
500000 and over	4	0.015	5089	6.600	27474	100.000	77116	100.000
All classes	27,474	100.000	77116	100.000	27474	100.000	77116	100.000

1. Levin, W. and Moulton, H.G., "America's Capacity to Consume," 1935, p. 54

[illegible]

a - Includes income from occupation, investments and from sale of property; also include imputed income on owned homes, but does not include imputed income on durable consumptive goods other than homes.

b - The estimates for this class are highly tentative.

Part II

A Factual Survey of the Distribution of Income and Wealth

1. The Distribution of National Income

(a) Geographical Distribution

Geographically the income for the year 1929 was distributed as follows: 55 per cent to the Middle Atlantic and East North Central States, comprising New York, New Jersey, Pennsylvania, Ohio, Indiana, Michigan, Wisconsin, and Illinois. This territory has 52 per cent of the total population of the country. The remaining 45 per cent of the national income went to the rest of the country which comprises 48 per cent of the total population.

The state of Massachusetts had the largest income per square mile - except Washington, D. C.. California ranked first in the per capita income of farmers at $1246, Massachusetts was next with $900, and South Carolina was last with $129. In the non-farm group Delaware's per capita income ranked first at $1550 (due largely, no doubt, to the fact that the wealthy DuPont families live there together, with the further fact that Delaware's population is quite small when compared with most other states). New York was next with a per capita income of $1417 and the District of Columbia followed with $1233 income per person.

(b) The Income of Families.

There were 36,462,000 family units in 1929, six million, or approximately 16 per cent of whom received 4.5 per cent of the total income which amounted to $1000, or less, per family; 11,653 million families received less than $1500 each and 36 thousand families received in excess of $75,000 each and a total of $9,800,000. Thus it appears that less than one-tenth of 1 per cent of the family population at the top received about 12 per cent of the total national income, practically as much as 42 per cent of the families at the bottom received. It was estimated by government statisticians that in 1929 an income of $2,000 per annum was sufficient for necessities of the average family, but according to figures from the same source some 22 million families or 60 per cent of the total number were living on an amount under that standard.

In tabulated form a study by the Brookings Institute of family earnings for the year 1929 appears as follows:

Families in the United States

21%	under	$1,000
42%	"	1,500
71%	"	2,500
8%	over	5,000
2.3%	"	10,000

The Edison Electric Institute conducted a

research regarding family incomes for the year 1935 which is given below:

16%	on Relief
35%	under $1,000
55%	" 1,500
75%	" 2,000
80%	" 2,500
85%	" 3,000

The same type of survey for New York City for the year 1925 showed 66 per cent of the families earning less than $2,500 per annum.

It appears that more and more people are drawing their income from the national income as money and cashing it into goods. It appears also that an increasing amount of the individual income is flowing through corporations. It is believed that the less closely the individual income is connected with money the more conducive it is to inequalities.

(c) Functional Distribution.

The functional distribution of the national income in order of amount earned according to "America's Capacity to Consume," Chapter III, by Leven, Moulton, and Warburton, was: 1st wages, 2nd salaries, 3rd interests, dividends and rents, and 4th farm. The same study shows about two million recipients who were not reported as being gainfully employed. This statement reminds the writer of another statement that he heard a "soap-box orator" in Chicago make several years ago. He said there was no difference, so far

as good to society was concerned, between the bum that rode the Pullman car and the bum that rode the rods, or blind-baggage: "both," he said, "are parasites upon society."

2. <u>The Distribution of the National Wealth</u>

A balance sheet of the national wealth of this country would be an interesting financial statement. To attempt to enumerate the country's assets would be quite an undertaking, but most assuredly natural resources, corporate and individual wealth would have to be included.

(a) <u>Control of the National Resources</u>

The Federal Trade Commission writing on "National Wealth and Income," (Chapter IV) gives us the following data: "Six companies are shown as controlling about one-third of the total developed water power; eight companies controlling more than three-fourths of the anthracite coal reserves; thirty companies controlling one-third of the bituminous coal reserves; four companies controlling nearly half of the copper reserves; two companies controlling over half of the iron ore; and thirty companies controlling over twelve per cent of the petroleum reserves."

Let us consider just one of these items - water power - and see if we can encompass the magnitude of this resource. From the Federal Trade Com-

mission again we view some very interesting statistics. "The potential water power resources in this country amount to 34,818,000 H.P. and the developed water power capacity is 9,086,958 H.P. Water power used directly in manufacturing is located principally in the north-eastern and eastern part of the country. The electric power developed by the use of fuels is much greater than the hydro-electric power. The New England, Middle Atlantic and East North Central States, in which 70 per cent of the country's manufacturing is located, have water power resources representing only a fraction of their power needs for manufacturing while the Mountain and Pacific states, with relatively small present requirements for manufacturing, have nearly 70 per cent of the country's estimated horse-power capacity. Another factor is that even in these sections where water power is available the cost per unit as compared with power derived from fuels makes it prohibitive at present.

The following tabulations show how the various sections of the country rank in percentage as regards potential water power; how the leading states rank and how the United States ranks with other countries.

Estimated Potential Water Power in the United States

By Sections	Percentage of Total	By States	Percentage of Total
Pacific Coast	38.20	Washington	4.9%
Mountain	30.83	California	4.6
Middle Atlantic	12.40	New York	4.0
South Atlantic	7.11	Oregon	3.6
East South Central	2.90	Arizona	2.75
New England	2.69	Montana	2.55
West North Central	2.50	Idaho	2.10
East North Central	2.12	Utah	1.40
West South Central	1.25		

United States Compared with Other Leading Countries

	Potential Capacity		Developed Capacity	
	H.P. Millions	per cent	H.P. Millions	per cent
United States	35	7.7	10	34.5
Canada	18.25	4.0	3.23	11.1
France	5.4	1.2	2.1	7.2
Norway	9.5	2.1	1.82	6.3

(b) Ownership of Corporations

Nine large companies own 50 per cent of the horse-power reported and about 24 per cent of the estimated total for the United States.

Berle and Means in "The Modern Corporation and Private Property," call attention to the now gigantic size and the continued growth of corporations and of the necessity of shaping our economic system in conformity with the size and growth of these institutions. Our answer is, and must be, let them grow so

long as society as a whole benefits thereby, but put such controls on them as will guarantee the benefits to society.

(c) Distribution Among Individuals

The distribution of wealth among individuals is given us in the Federal Trade Commission's "National Wealth and Income" (Chapter III), as follows: "The method used for the estimating of the distribution of wealth in this study is the value of estates of deceased persons as recorded in the county probate courts by administrators and executors. This study shows that about 1 per cent of the estimated number of decedents owned about 59 per cent of the estimated wealth and that more than 90 per cent was owned by about 13 per cent of this number."

"The average value for all estates was $3800-, but more than 91 per cent of the number had estates amounting to less than this average. The greatest number fell within the $1000 to $2500 group, while the total value was greatest in the $1,000,000 and over group."

"The study indicates a greater relative <u>direct</u> holding of real estate by groups of moderate wealth than by those of great wealth, or by those of little or no wealth."

"In estates ranging in size from $2500 to

$10,000 the average distribution of property between realty and personalty was practically even."

The division between cities, towns and country showing the ratio of realty to total estate is as follows:

	Per cent of Realty to Total Estate
City	30.6
Town	41.9
Country	50.6

Personalty was divided according to the following tabulation:

Distribution of Personalty in Percentage

Stocks	35.4%
Bonds	14.7
Real Estate Notes	10.6
Other Notes	4.7
Cash	14.7
Miscellaneous	19.9
	100.0%

The distribution of stocks, bonds and cash, in percentages of total personalty, appears as follows:

	Stocks	Bonds	Cash
Estates less than $500	2%	2%	71.3%
" over $500	49.2	21.7	2.5

A study of estates over $1,000,000 probated in New York, Chicago and Philadelphia during the years 1918 to 1923 reveals the following:

Size of Estate	Number Probated	Per cent of Total Number	Per cent of Total Value
1 to 2½ million	347	64.3	25.
2½ to 5 "	119	22.	20.
5 to 10 "	42	7.8	13.6
10 to 25 "	23	4.3	15.4
25 to 50 "	4	.7	6.9
50 to 100 "	4	.7	14.2
100 to 250 "	1	.2	4.9
	540	100.0	100.0

Of the 540 estates over one million dollars each, 104 or 20 per cent included no realty at all. The reason for small holdings in real estate by residents of Pennsylvania is easily understood by one who has lived there and understands the taxing methods. Real estate holdings are recorded on public records and therefore easily accessible to tax assessors, while stocks and bonds and other private property are not so accessible and therefore comparatively rarely taxed.

Part III

Causes of Economic Inequality

1. The Marginal Productivity Explanation.

(a) The Present System of Distribution

This theory applies only under certain conditions; namely, those in which profit is the prime motive of effort. It would not apply in Russia under its present political and economic government, neither would it apply to a savage tribe because the profit motive is absent.

The principle of the marginal productivity theory, according to F. M. Taylor, is that "every economic income tends to approximate that quantity of goods which constitutes an expression of the marginal significance to people at large of the actual output - when competition is free, the natural output - of the type of services rendered by the receiver of said income, and which also, in the case of free competition, constitutes an expression of the net marginal disutility involved in furnishing said type of service."[1] To quote Mr. Taylor again "the marginal significance of the services rendered and the marginal disutility of rendering it must also be considered".[2] The significant principle affirms that the price of any primary factor tends to be such as will express its marginal significance: in other words,

1.-2. Taylor, F. M., "Principles of Economics," pp. 438-445.

that any economic income tends to be such as will express the marginal significance, to people at large, of the services rendered by the primary factor in question. Another designation occasionally used is the "service value principle," the principle that each person tends to get an income which represents the value of his service or contribution. This principle affirms that every income tends to approximate (not equal) that quantity of goods which expresses the marginal significance attaching to the services rendered. To illustrate the marginal productivity theory, suppose that in a berry field of a certain size one man working alone could pick 100 quarts a day, two could pick 175 quarts, and three could pick 225 quarts, each would be considered as the third and the marginal productivity would be 50 quarts, the amount gained by adding the third man.

The principle teaches that each person tends to get an income which represents the marginal significance of his service. If $8.00 per day is the high and $5.00 per day the low, $5.00 then represents the marginal price.

When considering the problem of distribution (functional), the product income of all is a totality, a social income which is broken up into the individual incomes of the members of society. The question naturally arises, what are the processes and principles determining the distribution of the total income to the

individual members of society.

The principal kinds of income are two; namely, economic and non-economic. Economic income is such as is obtained through economic relations; i.e., wages, salaries, etc. Non-economic income is that income obtained through theft, cheating, governmental corruption, gifts, exploitation of natural resources (lumber, mines and waterways), and franchises because they often have their origin in foolish or corrupt munificence of government.

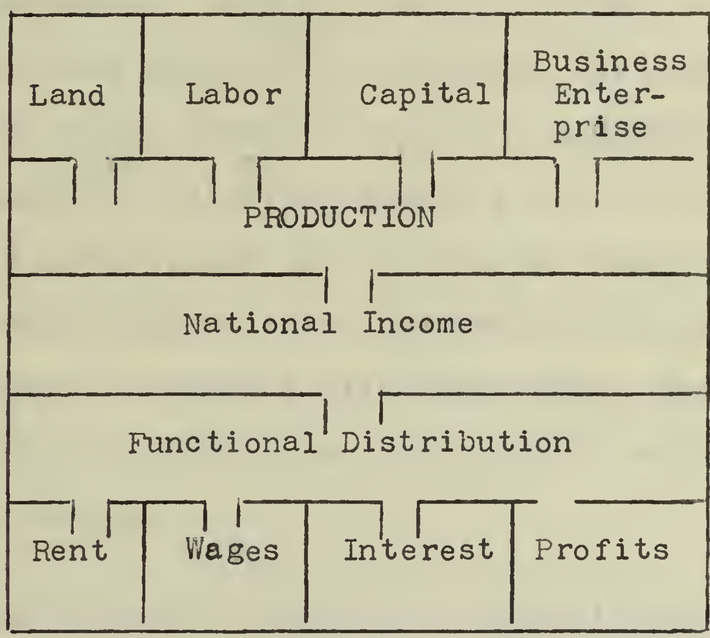
The chief economic incomes, according to F. M. Taylor (Principles of Economics) again, are wages, interests, profits and rents, the last of which is the hire paid for the use of unproductive or indestructible elements in land.

Income may be classified another way; that is, as personal or property incomes. Property incomes fall into three classes; namely, rent, interest and profits.

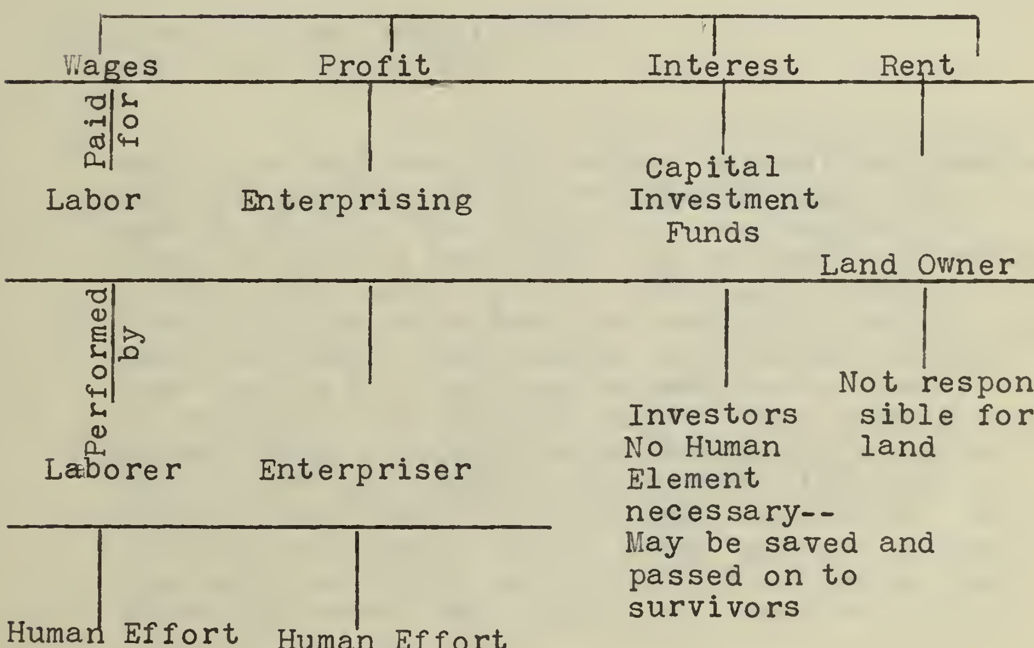
The distribution and exchange process, generally speaking, is the process whereby the regular economic incomes are determined to be the price-determining process. Profit, therefore, is, in effect, a price received for a service supplied. The service of labor, land, capital and responsibility taking belong to the class of economic goods designated primary factors, or cost goods. A primary factor is one behind which economic analysis cannot reach; which can be

traced to no more ultimate source. Labor is something beyond which we cannot go, wages, rent, interest and profit being the price of labor, land, capital and responsibility taking, are prices of primary cost goods.

Shown graphically the national income originates and is distributed in the following manner:



Functional Income



In Mr. Taylor's "Principles of Economics" (Chapter 37), he says that certain hypotheses stated and heretofore accepted are not precisely realized. "This hypothesis," says Mr. Taylor, "which we assume as the starting point of all economic reasoning, absence of force, fraud, favoritism, monopoly, and other conditions interfering with freedom of competition and contract, are far from being realized. Further, were none of these manifestly abnormal elements present, we should still have human ignorance, folly and inertia to hinder any precise realization of the principle.

(b) The General Principles of Distribution:Corollaries

The following corollaries concern the significance of our principle :

> 1. "Attempts to fix arbitrarily the amount of any economic share, whether by government or private action, without changing the demand for, or the supply of, the particular type of service involved, can succeed only within the narrowest limits. Law cannot compel people to pay much more for anything than it is worth to them. Law cannot long hinder people from paying for anything almost as much as it is worth to the marginal buyer. Law cannot long compel people to furnish anything for a price much below that which expresses to them the disutility incurred in furnishing that thing. Law cannot long hinder people from taking a price for their services substantially as low as that which expresses the disutility incurred in furnishing said service."

2. "Broadly speaking, the share per unit of each class of producing agencies varies inversely with the size of that class. Abundant land makes low rent, abundant labor makes low wages."

3. "Broadly speaking, the share per unit of each class of producing agencies varies directly with the size of other classes which coöperate with it. If capital increases in volume the rate of return tends to fall and the rate of return to labor and land tends to rise."

4. "Increase of population in itself tends to lower all shares but rent, most of all common wages."

5. "Any cause which restricts competition among the persons who supply a particular type of service tends to increase the rate of income received by the said persons."

6. "Any cause which restricts competition among the persons who supply a particular sub-class of service tends to lower the incomes of persons who supply related sub-classes of services."

7. "Broadly speaking, the improvement in method through discovery and invention tend more especially to increase interest and profits."

"The following corollary concerns the disutility of the principle:

8. If the primary factor from which an income is derived has a disutility cost, all artificial attempts to reduce the income are likely to reduce the supply of said primary factor."

2. <u>Criticisms of the Marginal Productivity Explanation</u>

(a) <u>The Control of Wages</u>

Mr. J. A. Hobson, in "Work and Wealth," (page 170), gives us the following criticism of the marginal Productivity Explanation. "It is commonly

asserted and assumed that this laissez-faire theory is dead, and that the attainment of a harmony of social welfare, by the free intelligent play of individual self-interest in the direction of economic forces, has been displaced by some theory of conscious, coöperative or corporate direction in which the state takes a leading part."

"The law of distribution is that every owner of any factor of production tends to receive as remuneration exactly what it is worth. Now this law is doubly defective. Its first defect arises from the fact that economic science assigns no other meaning to the worth or value of anything than what it actually gets in the market. To say, therefore, that anybody gets what he is worth is merely an identical proposition and conveys no knowledge. The second defect is the reliance upon a tendency which falsely represents the normal facts and forces. It assumes, in the first place, an infinite divisibility of the several factors, necessary to secure the accurate balance of preference at the margins. It next assumes perfect mobility, or freedom of access, for all capital and labor into all avenues of employment. Finally, it assumes a statical condition of industry so that the adjustment of the factors on the basis of equal productivity and equal remuneration at the margins may remain undisturbed. All three assumptions are unwarranted."

[illegible]

"[illegible]

I am [illegible]

[illegible] individuals. All these representations [illegible]

[illegible]."

(b) The Case Against Control

Hamilton and May, in "The Control of Wages" (Chapter 2), has this to say in regard to the "Case Against Control": "The most popular argument comes from the untutored and omniscient business man. In its simplest terms it is that rate of wages is determined by the natural law of supply and demand."

Most important of all the phrase "supply and demand" is not a law of wages. At best it is a statement of the terms within which the factors which determine wages are to be sought. Supply and demand are not simple and ultimate forces from whence flow normal and inevitable rates of wages. On the contrary, both of them are broad and complex terms that break apart into many simple factors. The demand for labor is a compound of the volume of industrial equipment, the efficiency of technique, the quality of management, the demand of the public for products of labor and kindred elements. The supply of labor is the matter of a number of laborers, their training, their experiences, their abilities, their organization and similar qualities. The popular argument against control thus becomes a question of whether or not these elementary factors, upon which wage rates rest, are subject to human guidance. The subsistence theory and the iron law of wages in theory is this: in its terms the

demands for labor meets the supply at the price which allows the laborer a bare subsistence. In the world of subsistence theory the community is absorbed in producing and consuming food to the end that the race may reproduce.

The Fund Theory is that there is in society a definite fund devoted to the payment of wages. Since this fund is fixed the aggregate of all wages must remain the same. Therefore, it is impossible for laborers by concerted action to raise the general rate of wages.

The Productivity Theory would teach us that the laborer gets what he is worth.

We may develop any or all kinds of beautiful theories, each to suit his own point of view, but in the final analysis, if these theories do not stand up under the light of investigation, what are they worth. When the real factors that make wages high or low are dragged from behind these euphonious phrases, we discover, even at first sight, that they are subject to control.

(c) A Theory of Wages

In discussing "A Theory of Wages," in the book, "The Control of Wages," Hamilton and May state that a theory is only an explanation in general terms. It is a mere statement of what is common to a number

of like objects or situations which have been observed. Since they all have much in common it tells the approximate truth about each of them; since they all have their peculiar features it tells the exact truth about none.

The origin of the Functional Theory of Wages grows out of a single one of many problems of wages. Its origin is in the question of how real wages are to be raised. Its formulation is an attempt to reduce the discussion above to a general statement, to tell in very broad terms the factors upon which the rates of wages rest, and to indicate in a rough way the control that can be exercised over each. It is <u>a</u> theory, not <u>the</u> theory of wages. This theory explains wages, so far as it explains, from the standpoint of the single problem of how they may be raised through a conscious control of the factors upon which they rest.

Two pertinent questions are: what are relationships of rates of wages to each other, and what is the relationship of wages as a whole to all the other incomes from industry. The rate of wages paid in an industry or occupation is a combination of:

I. The laborer's real wages. The size of this depends upon,

1. The nominal rate of wages. This term rests upon

A. The position of the industry, or occupation as regards,

(a) The price of its products, the costs of its raw materials and the sizes of the incomes which

go to the owners, to the management and to others who have claims upon it.

(b) The current state of the industrial arts with respect to labor, management, technique, industrial equipment, and the organization of the plant.

(c) The current state of the economic arts, which consists of a large number of conventions and arrangements. Typical of these are the guidance of industry by business, the organization of an industry as a member of competing concerns, the placing of the wages bill against separate establishments rather than against industry as a whole, and the absence of any competent research staff for the conscious development of a less wasteful organization for industry.

B. The ability of wage earners to discover and to appreciate income and competition with other groups who would possess it.

2. The purchasing power of the normal wage over the goods and services which make up the laborer's budget."

II. The free income of services which fall to the lot of the laborer, as an employee in industry, or as a member of the political order.

Even so brief a statement of the formula makes it evident that the factors upon which a wage-rate rests are, one and all, customs, habits, practices, conventions and arrangements, all of human contrivance, and subject to human guidance.

Nowhere among them are to be discovered the inevitable causes, the natural forces, or the other

imponderables that by some mysterious but inevitable natural law, hold wages in their vice-like grip.

The real basis for a belief that wages can eventually be brought up to their proper level is the conviction that their basic factors are subject to guidance.

From three characteristics of the sources of wages, their institutional quality, their variability and their susceptibility to control comes the most startling fact of all. There is no such thing as a normal wage, or a natural rate of wages.[1]

The term functional is meant only to indicate that the rate of wages in an occupation, or industry, is a function of the pecuniary, industrial and economic factors which impinge upon it. And to call it a function of such factors means only that it varies with variations in one, in a number, or in all of them.

The fact about wages in different countries and under different economic systems seem to support the argument that there is law and order in the wage structure.

3. <u>Monopoly</u>

(a) <u>The Trusts and Economic Control</u>

Many cases might be cited to show that monopolies have caused economic inequality, but a definition

1. Hamilton and May, "Control of Wages." pp. 120-121.

to the word monopoly and a little knowledge of the workings of monopolies should almost suffice. According to "Funk and Wagnall's Desk Standard Dictionary" a monopoly is "1. the exclusive right or privilege of engaging in a particular traffic; especially such control, as of a commodity, as allows prices to be raised. 2. a combination controlling a monopoly." Prices are raised for the purpose of increased profits and if profits are increased unnecessarily, considering a just return on investment, such to cover also risk taking, the consumer pays more than he should. The exorbitant profit, and that is just what it often becomes, swells the income to the monopolist, at the expense of the consumer, hence causing inequality.

Take the case cited by R. E. Curtis in "The Trusts and Economic Control" (Chapter 24). "By establishing unusually high freight rates on coal hauled from the mines to tidewater, the (railroad) companies made effective competition, by the independents in tidewater markets, an impossibility. So the anthracite combination's dominance of the market was almost entirely complete, based on ownership of more than 90 per cent of the unmined coal, production of at least 70 per cent of the total output, purchase at the pit mouth of the bulk of that mined independently, and transportation of the remainder at exorbitant rates."

Some of the outstanding cases that have been prosecuted by the government as being in restraint of trade and therefore in violation of the Sherman Anti-Trust Act, are: Standard Oil Company, American Tobacco Company, Standard Sanitary Manufacturing Company, Aluminum Company of America, Motion Picture Patent Company and the Crown Cork and Seal Company. The methods used have consisted of factors' agreements, patent pools, combinations and associations, but prosecutions have been on charges of restraint of trade in violation of the Sherman or Clayton Acts.

Proposed methods of dealing with the trust problem are stated in "Industrial Combinations and Trusts" by Stevens. These methods are the opinions of such well informed and respected men as: Ex-President William Howard Taft, Justice Louis D. Brandeis and others.

(b) The Concentration of Economic Power

Berle and Means in their work "The Modern Corporation and Private Property," in discussing the concentration of economic power call attention to the fact that corporations are growing in size to quite gigantic proportions. Mr. Berle is a Harvard graduate, a lawyer of no mean reputation in New York City, and should be able to write authoritatively out of his experience. He says that we must recognize that corpo-

rations have reached mammoth size and are continuing to get larger and recognizing this fact, proper steps should be taken to retain such good as comes from size and to curb such evil as might come to society as a whole because of such large institutions.

In Chapter III the authors above mentioned make the following statement: "The American Telephone and Telegraph Company controls more wealth than is contained within the borders of twenty-one states of the country." They list the following companies as being among the largest in the United States, each of which has a capital of more than a billion dollars.

Name of Company	Capital in Millions
American Telephone and Telegraph Co.	4,228
Pennsylvania Railroad Co.	2,600
Southern Pacific Railroad Co.	2,156
United States Steel Co.	2,286
New York Central Railroad Co.	2,250
Standard Oil Co. of N. J.	1,767
Alleghany Corporation	1,600
General Motors Corporation	1,400
Consolidated Gas Co. of N.Y.	1,171
Atchison, Topeka and Sante Fe R.R. Co.	1,135
Commonwealth and Southern	1,133
Union Pacific R.R. Co.	1,121
U. S. Electric Power	1,125
Middle West Utilities	1,120
Baltimore and Ohio R.R. Co.	1,040
Total	26,132

The above shows fifteen companies controlling more than 26 billion dollars of capital, and some of the largest financial institutions, such as the Metro-

politan Life Insurance Company, with a capital of over 3 billions, are not included. The inclusion of such companies would cause some duplication because of their stock ownership in the other companies.

The total capital of two hundred of the largest corporations exceeds 81 billion dollars, more than the average national income over the five best years in the history of our country.

One of the large companies, but not large enough to be listed as one of the fifteen largest, the Bethlehem Steel Corporation paid out between the years 1914 and 1927 $27,000,000 in dividends and, in addition, paid twelve officers $25,000,000 in bonuses in addition to their regular salaries which were enormous and, at the same time, the average steel worker was working between ten and twelve hours per day for less than $40.00 per week - a practical illustration of economic inequality, caused by errors in distribution of income.

Says Berle and Means further, "the principles of duopoly have become more important than free competition. Competition has changed in character and the principles applicable to present conditions are naturally different from those which applied when competing units were smaller and more numerous."[1]

1. Berle and Means, "The Modern Corporation and Private Property," pp. 43-44.

nations like Switzerland, Sweden, Italy, Belgium, [illegible] millions, are not included. The [illegible] of these industries would [illegible] some [illegible] in their other [illegible] in the other countries.

The other [illegible] of the movement of the foreign [illegible] abroad [illegible] the [illegible], since then the [illegible] national income over the [illegible] great in the history of our country.

[illegible] the large [illegible], [illegible] to be listed at one of the [illegible], and settlements [illegible] the greater [illegible] and [illegible] $27,000,000 in [illegible], in addition, [illegible] twelve millions [illegible] in [illegible] also to their regular [illegible] which have [illegible], at the same time, the [illegible] and [illegible] has not been [illegible] but the [illegible] has been [illegible] the year — [illegible] [illegible], [illegible] in [illegible].

[illegible], [illegible] been [illegible] [illegible] in the [illegible] — [illegible] differences [illegible] which [illegible] would [illegible] smaller [illegible].[1]

1. [illegible], "[illegible]," [illegible], p. [illegible].

"Approximately 2000 men were directors of the 200 largest corporations in 1930. Since an important number of these were inactive the ultimate control of nearly half of the industries was actually in the hands of a few hundred men. The economic power in the hands of a few persons who control a giant corporation is a tremendous force which can harm or benefit a multitude of individuals, affect whole districts, shift the current of trade, bring ruin to one community and prosperity to another."[1]

Adam Smith in his "Wealth of Nations" mentioned private property, private enterprise, individual initiative, the profit motive and wealth concepts. These are the concepts which he employed in describing the economy of his time and by means of which he sought to show that the pecuniary self-interest of each individual given full play would lead to the optimum satisfaction of human wants. Adam Smith wrote about the economy for the small business and never even dreamed of such gigantic enterprises as the modern corporation. He said it could not exist in competition with the co-partnerships. To Adam Smith, wealth meant tangible assets; wheat, land, buildings, ships and merchandise. Today two essentially different types of wealth exist; namely, passive property, such

1. Berle and Means, "The Modern Corporation and Private Property," p. 45.

as stocks and bonds, and active property, such as plant, goodwill, organization, etc.

To summarize Berle and Means in their new concept of the corporation and the trust work through the corporation, we have:[1]

> 1. Concentration of economic power in huge corporations and a growing tendency to larger and larger sizes.
>
> 2. Competition has changed in character. The principles of duopoly have become more important than those of free competition.
>
> 3. An increasing proportion of production is carried on for use and not for sale.
>
> 4. Nature of capital has changed from tangible to intangible goods.
>
> 5. Concentration of power in the hands of a few.

4. Inheritance

H. E. Read, the author of "The Abolition of Inheritance," has been characterized as a dramatic propagandist by Hugh Dalton in "Some Aspects of Inequality of Incomes in Modern Communities," yet he has written much to give us food for thought. It is not my purpose to quote him here, but to merely call attention to the above work for a really biased view against inheritance.

(a) Inheritance Examined from the Standpoint of Economic Results

In "The Economics of Inheritance," By J.

1. Berle and Means, "The Modern Corporation and Private Property," p. 46.

Wedgewood (Chapter II), the statement is made that three-fifths of the property owned by British individuals was inherited and two-fifths earned and saved. The author calls attention to inherited traits, abilities, capacities, etc., which, while no doubt it affects economic inequality in the long run, there is nothing we can do about it. What we plead for is equality of opportunity to develop the innate abilities, capacities and traits of all, not just a few, to the end that economic inequality shall be minimized.

Chapter III of the book above mentioned is devoted to inheritance as a cause of inequality, and here the author confined his remarks to inheritance of property. "Given our existing system of private property and contract there are three main causes of unequal distribution: unequal ability as determined by heredity and environment; unequal inheritances and gifts of property and unequal luck, as regard circumstances, which is beyond the power of the individual to foresee or control."

Any rational opinion as to the effectiveness and merits of policies intended to reduce inequality of distribution must depend, in the last analysis, on our theories with regard to, first, what are the causes; how far is each cause inevitable or desirable, from other points of view and third, what is

the comparative importance of such cause.

"Inheritance perpetuates and may intensify inequalities arising originally from other causes. In that sense it is a secondary cause of unequality, but that is not to say that it is of secondary importance."

(b) Inheritance of Property and other Hereditary Advantages

The divisions of an estate may be as to inheritance, savings and windfalls (good and bad). A factor which will influence the total amount of a man's "safed" property is the age at which a man inherits. And again there is quite a difference between inheriting $50,000 in securities, or real estate and inheriting the value of the same amount in a partnership, or small corporation. Here again the age of the inheritor is important.

Probably unequal inheritances, as distinct from gifts and from hereditary advantages of birth, education and early environment, have actually comparatively little influence on the distribution of earnings. Certainly the existence of unequal inheritance and gifts is one reason why property is so much more unequally distributed than earnings.

(c) Inheritance as a Cause of Inequality

It is evident that the distribution of wealth and its potency as a cause of inequality depends on a

number of variable factors. Chief among these are the laws and customs governing inheritance and bequests; systems of taxation; the extent to which philanthropy is practiced by rich testators; marriage customs; the size of families; and the degree of stability of economic and political conditions.

There seems to be no question, to the thinking individual, regarding the fact that inheritances make a vast difference between the economic status of two members of society. One very significant advantage of inheritance, not mentioned by either of the authors quoted, is that of position. Many business positions have been inherited, both by death of the former occupant of said position and by the former occupant being discharged to make room for a member of the family. A president of a corporation once said to me after I, as credit man and office manager of the company, had criticised the keeping of a son-in-law of the president on the payroll: "I have to feed him and, therefore, had just as well have him on the payroll." Other such causes of inequality have come within the writer's experience as that where two sons of a proprietor were paid the respective salaries of $10,000 and $7,500 per year for doing work that two outsiders could have been hired to do for, certainly not more than, $25.00 per week each.

It is not alone the immediate monetary advantage

of inheritance that causes inequality, but the inheritance of environment that is so totally different in home, school, associations, etc., that give one individual opportunities that another never knows even exists and much less enjoys. There is, for instance, absolutely no comparison in opportunity between the son of the president of a corporation and the son of one of the laborers of the same corporation. Then again, the wealthy and moderately wealthy families consist, almost without exception, of fewer children than the families of the poorer class (hence the question of birth control) which, of course, would mean inequality of inheritance even though both families had the same value of estates.

5. Private Ownership of Natural Resources

(a) The Unearned Increment in Land Values

The question of unearned increment in land values should be considered here. This question might be considered from two viewpoints; namely, that of the investor and the social viewpoint. To the investor, no increment in the value of land has occurred unless the selling price of the land exceeds the price at which it was purchased by more than enough to compensate the owner for all the costs of holding the land plus the cost of any improvement placed thereon. Included in the cost of holding would be the amount of

interest which would have been received had the buyer of the land placed his money in some alternative investment of equal safety. When examined from the social point of view the increment comes to be something quite different. An increment in value has occurred when the difference between the purchasing price and the selling price, the latter having been corrected for change in price level, is in excess of the cost of any improvements the owner has made on the land during the period of his ownership.

This naturally raises the question: what is the social significance of the private receipt of the social increment in land values? In general three distinctly different answers have been given to this question. First, the receipt of value increments by individuals stimulates the best productive use of the land and is therefore something which the individual works for, earns, and should get; and that his receipt of it benefits society at large by encouraging production. Secondly, these increments are unearned income in the sense that they do not result from activities of the individual per se, but that the private receipt of them does no one in society any harm. Thirdly, increments are unearned incomes and their private recipients are getting something which someone else - the rest of society - loses.

Obviously, these opinions are widely dif-

ferent. They provide an interesting illustration of the variety of answers one may get to a problem in the social "sciences."

Some of the arguments in favor and against the above answers will be discussed in the order mentioned above. The increment in land value is sometimes said to be the wages of the pioneer for his services in clearing the forest putting the land unto usable condition and bearing the hardship of frontier life. This was advocated by A. S. Johnson in "The Case against Single Tax," Atlantic Monthly, 113:33 (Jan. 1914). There are several apparent weaknesses in this line of thought. It presumes that the people who did the pioneer work received, and are receiving, the increment. It does not account for the increments that have occurred, and are occurring, in the value of urban land and developed agricultural land. To what extent the private receipt of the increment can be justified on this ground in an undeveloped or semi-developed country, it is almost impossible to say. However, in a country which has passed the pioneering stage, this argument has weight only to the extent that persons who actually did the pioneering are still holding the land. Even in such cases one could ask whether increments received bear any difinite relation to the value of the personal efforts of the pioneer.

Professor Richard T. Ely agrees with conclu-

sions stated in the first answer in his "Theory of Ripening Uses," as described in an article entitled "Land Income," Political Science Quarterly, 43:410-13 (Sept. 1928).

Quite different is the second of the three evaluations of social significance of the increment. This view although widely held, is not often expressed. It holds that the recipient of increment in land value has found something which no one else has lost and that, although he individually gains through the lucky find, the rest of the members of society are no worse than they otherwise would have been.

Professor T. N. Carver in his "Essays in Social Justice" (page 282), holds somewhat this view. He says: "Some wealth is found. If I stumble upon a gold nugget.....I cannot truly say that I have earned it, nor can anyone else. Until someone could be found who could prove that he had produced or otherwise earned it, I could not be accused of depriving anyone else of his earnings. In the opinion of the present writer, the site value of land belongs in the class of findings, rather than in that of earnings or stealings." Professor Carver obviously does not agree with those social reformers who contend that "when one gets something for nothing, someone else gets nothing for something." The two cases cited by Professor Carver are not comparable. The man who found the gold nugget produced the nugget in the accepted meaning of the

term "production." Production does not mean the creation of materials. He did bring gold into the range of society's use. He was the means of providing society with something possessing want-satisfying power which society previously did not have. By finding and taking the nugget to a jeweler, who gave him in exchange for it the means of purchasing other goods and services, the finder actually increased the amount of gold available for the satisfaction of people's desire for that commodity, just as certainly as does the man who swings a pick in a gold mine. In other words, the finder of the nugget increased the amount of wealth in the possession of society and unquestionably deserves a reward for having done so. On the other hand the recipient of the increment in land value, assuming he did not improve the land in any way, has not increased society's ability to satisfy its wants. He has increased neither the supply nor the productivity of the land. The land was the same when the increment receiver sold it as when he bought it, and the increment cannot, therefore, be compared with the value of the gold nugget discovered for the first time.

The discussion of questions one and two have covered the third, and concluding the discussion of private ownership of natural resources it should be reiterated that increments in land values from the social point of view are unearned income, and that

whenever society permits any individual to live on an unearned income, the goods and services he consumes are taken from the other members of society, although indirectly. The private receipt of social increments not only reduced national income by encouraging speculation in land, but distributes it in other ways than on the basis of productivity. It not only decreases the per capita standard of living by reducing the national income, but lowers the standards of some individuals in order to raise the standards of others, hence producing economic inequality.

The question arises as to whether private ownership of natural resources is best for society at large, or whether such resources should be government owned. Without discussing this question, since the natural resources are, for the most part, privately owned let us see how society may get the real benefit of such resources.

(b) Land Rent

H. G. Brown in his book "The Taxation of Unearned Income," under the caption, Land Rent, says: "A piece of land which would yield $5,000 per year net rent............... would be worth if interest were 5%, $100,000. Were the interest rate 10%, such a piece of land would be worth but $50,000."

"Natural resources had no cost of construction. Their salable value is but the capitalization of

tribute. Taxation of rent by the public can be made to secure, for the general benefit, as much of this income as it is desired to get. Rate regulation cannot."

What is it that makes land or any other natural resource valuable? It is capital, labor, enterprise, organization and technical knowledge, ordinarily, either directly or indirectly, but sometimes the mere moving of the ever increasing population causes land values to rise. Such was the case with our frontier lands. It has been said, on the other hand, that the building of the Panama Canal increased adjacent property values to the extent of the cost of the canal.

6. Financial Manipulation and Speculation

It is a well known fact that financial manipulation through banks, stock exchange transactions, and higher racketeering of various kinds puts money into the pockets of those on the "inside" at the expense of those on the "outside." This is plainly one of the causes of economic equality. inequality?

The bank, properly conducted, performs a real and valuable service for which it should be duly compensated, but when we view some of the transactions of banks and follow the effects we must stand aghast, and in open-eyed amazement exclaim, how under the law can they do it.

Jerome Davis tells us in "Capitalism and

Its Culture," "Under capitalism the American people have been taught to save. If the individual saves he must normally place his money in a bank, in an insurance company, in a building and loan association, or use it to purchase stock certificates and bonds. Whichever process the individual follows, in the end a good share of his money is generally used by some corporation. In 1921 42 per cent of national bank assets were in securities or were being used as loans on securities. By 1929 this had increased to 54 per cent. Life insurance companies had 34 per cent of their assets in bonds and 3 per cent in stocks."

(a) The Banker's Monopoly on Credit

The banks are essentially manufacturers of credit currency. They first obtain money from their stockholders and depositors. Then they manufacture credit by making loans and discounts to their customers. Bank deposits are often little more than loans extended to depositors by the bank.

For instance, a business man may go to a bank for a loan of $50,000. He signs a note and gives other collateral security if that is demanded. The bank then gives him a credit of $50,000, less any discount which it may impose. The bank can now send his note to the Federal Reserve Bank and in turn get credit. It can then turn around and make further loans. Ten

dollars in deposits can furnish the foundation for many times that much credit. The bank invests its depositors' money in bonds , commercial paper, mortgages, and many different kinds of loans.

It can thus be seen that the bankers have a monopoly of credit. They collect a tribute from the people, using the people's own credit. Even when the United States needs money during a depression era it floats loans through the banks. It consequently pays interest to a private organization for the use of its own national credit. During the depression of the early 1930s in the United States, the government not only secured money through the banks, paying for the privilege, but it then used a part of this credit to aid the same private banking institutions. If the banking and credit system were nationalized this queer procedure would be unnecessary. Senator Cutting (since deceased) described the present situation vividly when he said: "Actually the government is getting itself into debt to the banks for the privilege of helping them to regain their stranglehold on the economic life of the country."

(b) The Banker's Lack of Preparation for His Responsibility

When we consider, in addition to the above, how poorly prepared and equipped some bankers are for the responsible positions they hold, there is some

explanation as to why they, as a class, contribute to economic inequality.

What is the necessary preparation or equipment for a banker? Must he be able to successfully pass an examination prescribed by the state as does a physician, a lawyer or an accountant? No. Does he have to satisfy anyone regarding his ability to manage funds entrusted to his keeping? No. All he has to do is to be able to raise a certain amount of cash, according to the location in which he expects to do a banking business, interest a few others and secure a charter. Often men, who have absolutely no knowledge of banking, organize a bank for the sole purpose of furthering some other business in which they are interested through borrowing depositors' money. Sometimes it is for self aggrandizement and in the earlier days and not so far distant, at that, some organized banks with the thought in mind of having them fail so that they would profit thereby.

The combination of lack of ability and crookedness accounts for the failure of many of the 6000 banks, involving $3,500,000,000, that failed during the recent depression. During the time of prosperity the banks pay huge salaries to their officers and huge dividends to their stockholders. Some of the income is the result of stock market and real estate speculation (gambling), but so long as everything goes right every-

one is happy. But a day of reckoning arrives with frozen assets and who suffers? Is it the directors or officers of the bank? No, they had inside information and drew out their deposits or most of them. Do the depositors who are large corporations or large individual depositors suffer? Usually their money is deposited in several banks and even if they did not have advance information regarding the condition of the bank, which they often do have, their losses are not total losses. It is the small depositors, whose total life's savings are in the bank, many times, who lose all. They have implicit faith in the bank and have absolutely no reason to surmise that their savings are in danger. In many cases the bank officials have gambled with the depositors' money, knowing full well that if they won the winnings would be theirs, but if they lost it would be the depositors' loss. Many bank officers are serving time now in penal institutions because of such conduct, but when they are released they will return to comfortable homes and circumstances, while some of the depositors whom they have ruined financially have had to break up their homes, their families have become scattered never to be reunited and for the most part dependent upon welfare for a livelihood.

(c) The Private Banker Fleeces the Public

The above refers to commercial banks, but the private banker's conduct is not above reproach

either. These bankers are sometimes referred to as wholesale bankers, and the two outstanding such bankers in this country are J. P. Morgan and Company and Kuhn, Loeb and Company. In the year 1929, $11,000,000,000 of new securities were issued to the American public and most of it came through the investment banker of whom there are three kinds: wholesaler, retailer and dealer.

Jerome Davis, in his "Capitalism, and Its Culture," recites a bit of interesting information which is well worth quoting. "The United States learned the technique of extracting money from the public during the Liberty Loan drives. The bankers and financiers used this technique to good advantage in the period following the war, down to 1929. The result was that money was drained off into all sorts of worthless investments instead of being spent for cunsumption, The story is told by one of the salesmen for the securities of the National City Bank who accepted, at their face value, the official letters of the bank regarding securities, borrowed thousands of dollars of his own money, and then sold bonds to all his friends. He was first sent to a bond school by the bank, where he was taught that securities were sold the same as all other things, from shoes to washtubs. One of the speakers spoke of Jesus 'as one of the Greatest Salesmen of all times,' and drew an analogy

between his organization of twelve Disciples and a Modern Sales Organization."

"After graduation this salesman was sent to Alabama. Fortunately, he kept copies of the circulars which the bank sent him about bonds he was to sell. The president sent out letters in which he urged the sale of what he termed 'a sound and conservative investment stock,' and 'puffed' it to the skies. Later, of course, the stock fell from 130 to 23. No wonder that after the salesman lost his job he declared, 'We pumped up this country like a balloon and with the same thing - air.' The New Era bankers with all their innovations were the boys who supervised the crew and ran the pumps."[1]

Who "holds the bag"? The little fellow who has no opportunity to be informed, but must rely on the knowledge and honesty of someone else - a prolific source of economic inequality.

High finance gets into many phases of our lives. It invaded food through the frozen food industry and those inside "cleaned up" a neat fortune in the transaction. A man by the name of Birdseye discovered that when a live fish is frozen very suddenly in a block of ice and as quickly unfrozen the fish is preserved without the slightest damage. This discovery was immediately patented. The General Foods

1. Davis, Jerome, "Capitalism and Its Culture," pp. 75-76.

Company is reported to have developed this process at a total cost of $1,750,000. The Goldman-Sachs Trading Corporation and the Postum Company purchased this patented process for $23,500,000. It is history now, how, through organizing a Canadian corporation, and putting this deal through it, General Foods Company paid no tax on the profit of $21,750,000. The tax that this company evaded, because it could engage high talented legal counsel, was paid indirectly by some individuals and smaller firms who could not pay for such highly talented legal counsel. The check in payment floated around several offices, into Canada and out again and, finally, found its way into the office of J. P. Morgan and Company.

The stockholders of General Foods Company made an enormous profit of over $21,000,000. The United States government collected no taxes on the profit from the sale. What was the final result to Goldman-Sachs stockholders? The Postum stock was sold at a loss of $230,000. The Frosted Foods stock was sold to the Postum Company for $900,000, a loss of $11,850,000. It will be noted that over $23,000,000 had been easily raised from the American public and that it was the people who, in the end, were left "holding the bag," contributing again to economic inequality.

Cases similar to the above could be cited in connection with financing buildings, railroads, etc., but it would only augment what has been said previously; however, this part of the discussion would not be complete without some reference to finance and management.

(d) The Officers of Private Corporations and Others Follow Suit

Again Mr. Davis has so well stated this matter that what he says is quoted.[1]

"Under a profit economy it is natural that all concerned should be working to secure the maximum amount of compensation. It is perhaps inevitable, therefore, that executives and bankers should seek, where-ever possible, to increase their salaries. Yet this may also affect the return to stockholders. The New York Edison Company, while discharging employees, increased the salaries of the principal officers from $149,000, in 1931, to $250,000 in 1932, an increase of 70 per cent. During the same period they cut wages by $1,300,000 and maintained 12 per cent dividends."

"President Hill, of the American Tobacco Company, in 1930 received a salary of $168,000, plus a 'special cash credit' of $270,000, a cash bonus of $840,000, and a profit from stock allotment of 13,440

1. Davis, Jerome, "Capitalism and Its Culture," pp. 125-130.

shares of common at $25.00 (although it was quoted at 112). This stock deal alone gave him $1,169,280. This makes a total of $2,500,000." (This figure should be $3,883,280). "Five vice-presidents received aggregate annual salaries and bonuses of over $2,077,000 and through stock subscriptions for $1,451,595."

"Sixteen directors got benefits of $1,646,910. It is obvious that this form of individual financing affected the stockholder's interest. Some of them brought suit, but the majority of the United States Supreme Court refused jurisdiction, although in their dissenting opinion Justices Stone and Brandeis said of these officials:

> 'The stockholders did not consent that they should be the chief beneficiaries of their own unrestrained munificence, or that they should add any new bounties to the unrevealed stock allotments which the directors had previously enjoyed in secrecy.'"

"Charles E. Mitchell, of the National City Bank of New York, was paid $3,500,000 in bonuses in three years in addition to a salary of $25,000 a year." Mitchell testified under oath that his enormous bonuses were valuable (to the bank) because they increased the morale of the younger men in the organization. He testified under cross examination that the younger men in the organization did not know of his bonuses.

"Mr. Wiggins of the Chase National Bank received $175,000 in salary in 1928; $218,750 in 1930; $250,000 in 1931; and $220,300 in 1932. He also received a bonus of $100,000 in 1928, $100,000 in 1929, and $75,000 in 1930. He received in addition $75,000 in 1930 as an executive officer in the Chase Securities Corporation, affiliated with the bank. He was serving as director in fifty-nine corporations, from some of which he received additional compensation. For instance, the American Locomotive Company paid him $300 per month; the American Sugar Refinery Company $300 per month; Armour and Company paid him $40,000 a year at one time and at another, $1,000 per month; The American Express Company paid him $3,000; the Brooklyn-Manhattan Transit Corporation paid him $20,000 a year; the International Paper Company gave him a small salary, probably $2,000; Stone and Webster gave him $1,500; Underwood-Elliott-Fisher $2,000 a year; Western Union Telegraph approximately $3,000 a year, and the Finance Company of Great Britain and America formerly paid him $5,000 annually. It was Mr. Wiggins who, as chairman of the governing board of the Chase National Bank, on January 13, 1931, urged that the time had come to ask labor to accept reductions in wages, although he, himself, was receiving an increase."

"So widely prevalent was this increase in

salaries and bonuses while workers were being laid off that the Reconstruction Finance Corporation was finally forced to issue a rule that executives must reduce their salaries, or prove they were not excessive, before getting any loans. In the case of the Southern Pacific Company, before approving its request for a loan of $23,300,000, the salaries of the executives of the company were ordered reduced by from 10 to 60 per cent."

"Sometimes the bankers may find it desirable to make special inducements to individual executives. For instance, when J. P. Morgan and Company wished to purchase 50,000 shares of Columbia Gas and Electric Corporation, the president of the company, Mr. Gossler, stipulated that he should be allowed to purchase 5,000 shares of common stock of the United Corporation at $25 per share. This gave him the stock at a total price of $150,000 below the market value of the shares on that day."

"On the other hand, officers and directors of the National City Bank were 'allotted' stock in United Aircraft and Transport at substantial discounts from the market price. Joseph P. Ripley, executive vice-president of the National City Company, made a profit of $67,501.88 within six weeks after securing his stock. Apparently it pays for certain corporations to give favors to bankers, as well as for the bankers to give

favors to certain corporation executives."

It is reported that J. P. Morgan controls either directly, or through interlocking directorates, or otherwise, about 74 billion dollars of corporate wealth. This is estimated to be approximately one-fourth of the corporate assets of the United States. This is a fine specimen of a source of economic inequality.

The stock market, like the race track, is a medium of profit for those who "know," and loss for those who "do not know." Millions of dollars are lost every year by the wage and salary earner which, were it not for these agencies, would be spent on consumption commodities. The financial advisor ranks on a par with the race track "tout"; the honesty of both is questionable and neither knows any more than anyone else about conditions that they issue advice on. Of the two the race track is probably the safest place for the uninformed. At least the participator has the sport of watching his choice run and a sporting chance that it will win. In the stock market he does not know what is going on, and all he can see is a ticker.

Many persons who would not think of betting on a horse, play the stock market. One is as honorable as the other, and if one studies the game and operates alone, disregarding "advice," he is more apt to win at a race track than he is in the stock market. But for the

uninformed (the lambs), both are a prolific source of economic inequality.

A form of dishonesty resorted to by many large companies, and which is referred to as higher racketeering by Jerome Davis, is that of writing up, or overvaluing, assets or investments, and the failure to properly depreciate assets in accordance with actual depreciation sustained. Mr. Davis covers this subject in the eighth chapter of "Capitalism and Its Culture." He says in part, "We will comment on six common practices of the capitalistic system.

1. Revaluation of properties and increasing book figures.
2. Stock dividends and splitting stock.
3. Purchasing property from another company at a far higher price than original installation costs.
4. Forming a subsidiary and paying excessive prices to the subsidiary for goods or services.
5. Failure to write off properties as they become useless for public service.
6. Capitalizing earnings."

In each of the above the attempt is made to secure more income by the way of dividends to stockholder without additional investment, hence more cost to someone else. That someone else is the customer, the public, who pays more for goods or services because

the stockholders want to get larger returns on their investments. And the surreptitious manner in which this is accomplished is really nothing short of higher racketeering - sometimes within the law and sometimes without. The customer has no voice in the matter except as it is used through the Public Service Commission if the company happens to be a Public Utility in intrastate service, or through the Interstate Commerce Commission if it is doing an interstate business. Is the customer, the public, treated fairly? No; hence another source of economic inequality.

PART IV

Consequences of Economic Inequality

1. Social Stratification

R. H. Tawney says: [1]To criticise inequality and to desire equality is not, as is sometimes suggested, to cherish the romantic illusion that men are equal in character and intelligence. It is to hold that, while their natural endowments differ profoundly, it is the mark of a civilized society to aim at eliminating such inequalities as have their source, not in individual differences, but in its own organization, and that individual differences, which are a source of social energy, are more likely to ripen and find expression if social inequalities are, as far as practicable, diminished. It is the habit of mind which thinks it not regrettable, but natural and desirable, that different sections of a community should be distinguished from each other by sharp differences of economic status, of environment, of education and culture and habits of life, and regards with approval the social institutions and economic arrangements by which such differences are emphasized and enhanced, and feels distrust and apprehension for attempts to diminish them.

Barriers that set one class over against another some years ago have been cast aside. These barriers, such

1. Tawney, R. H., "Equality", 1931, p.50

as color, race, creed and sex, have been overcome. A gentleman is such if he so conducts himself today regardless of color or race. No more do religious affiliations raise barriers as was once the case. Women now enjoy the same political rights as do men. Yet there remains the economic barriers marked by occupation, trade, profession, neighborhood in which one lives and, as much as we may dislike to think of it, America has a cast system, as does India, the difference being in degrees of severity; however, we in America are not bound to stay within the cast in which we were born. We can escape from a low standard to a higher one and many do which, of course, proves that there is a stratification, and it amounts to more than the three classes we often hear mentioned; namely, the wealthy, middle class, and the masses.

"Progress," says Mr. Tawney, "depends, indeed, on a willingness on the part of the mass of mankind - and we all, in nine-tenths of our nature, belong to the mass - to recognize genuine superiority, and to submit themselves to its influence. But the condition of recognizing genuine superiority is a contempt for unfounded pretentions to it. 'Where the treasure is, there will the heart be also,' and if men are to respect each other for what they are, they must cease to respect each other for what they own. They must abolish, in short, the reverence for riches, which is the 'lues Anglicana' the hereditary disease of the English" (also American) "nation.

And, human nature being what it is, in order to abolish the reverence for riches, they must make impossible the existence of a class which is important merely because it is rich."

2. Variety of Living Standards

(a) The Utilization of the Family Income

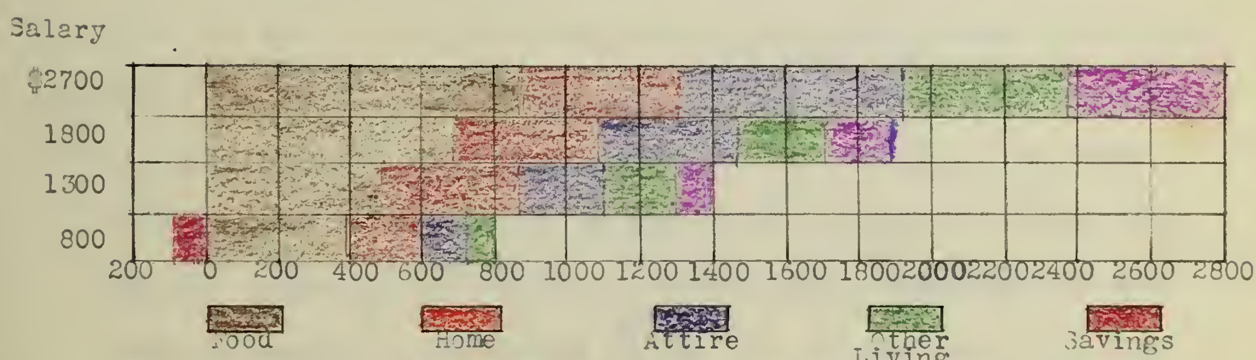
Since living standards are determined by income let us consider the income of wage earners, farmers and business and professional groups respectively.

Non-farm families with incomes under $3,000 which are predominantly the families of wage earners, numbered 16 millions in 1929, or 59 per cent of the total number of families in the nation.

This group has been broken down into four sub-groups, according to size of family income. The income divisions are $2,700, $1,800, $1,300 and $800 each being approximate, of course.

The disposition of the above incomes, as shown in the following chart, will indicate largely the standard of living of these four groups.

Expenditures of Wage Earners' Families [1]



1. Taken from "America's Capacity to Consume" by Moulton, p. 68

The item "home" includes rent or its equivalent, fuel and light, furniture and furnishings and household operation. Attire includes amounts spent for clothing, jewelry, tonsorial service and toilet articles, and for the care of clothing. "Other living" includes all current living expenses not classified elsewhere, and consists chiefly of expenditures for transportation, medical care, education, recreation, tobacco and liquor, gifts and contributions to dependents. "Savings" include life and health insurance premiums, as well as the sums designated as "surplus" in surveys of family expenditures. That is, it is a figure intended to cover the full amount set aside for investment, for future use, or for contingencies. A deficit, or negative saving, means that expenditures for current living have actually exceeded the income, the difference being met by withdrawing past savings, or incurring indebtedness.

The variations are such as would be expected from the character of the groups involved. In the $2,700 class, for example, expenditures for food range from $715 to $932, and those for shelter and home maintenance from $508 to $871. In the low income class the range for food was from $346 to $382 and for the home from $192 to $412. The explanation of the low figure for shelter and home maintenance in the case of the lower groups is that many of the lowest paid workers receive free quarters in box cars or shacks, evaluated at $5 per month, and that the

greatest majority of these workers live in rural, or at least, suburban regions.

The next group to which we turn our attention is the skilled workers and the lower middle class, non-farm families, whose incomes range from $3,000 to $6,000, numbering four millions in 1929, or 14 per cent of all families of two or more persons. Within these limits are several groups of wage-earning families, notably skilled mechanics, machinists, typographers, steel workers, hosiery mill operatives, and families in which there were two or more full-time workers. However, the majority of the families within this range of incomes are the families of men engaged in business or professional pursuits.

There is no clear line of demarcation in economic status, or habits of living, between the ranks of the unskilled workmen and those of business and professional people.

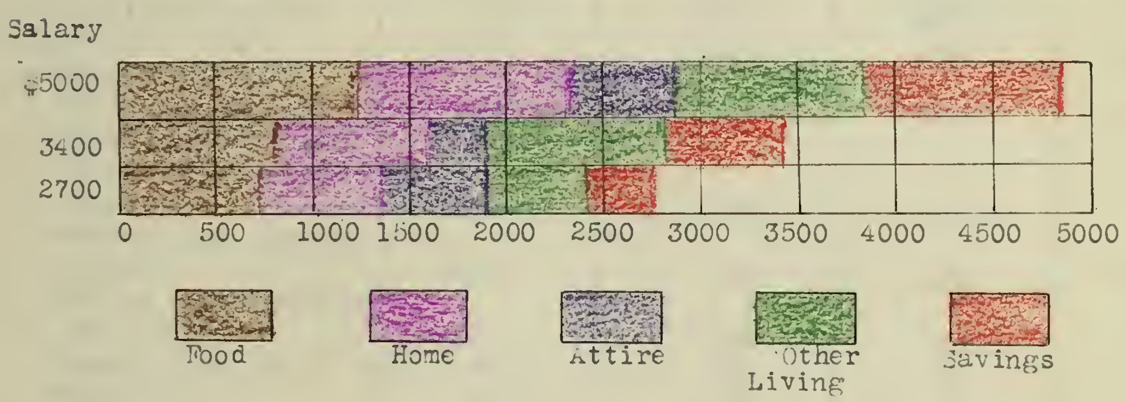
There are substantial differences in the character of family expenditures as we move up from families in the $2,700 level to those in the $5,000 level. Expenditures on food, for example, increase only moderately, as compared with the increases for the other categories. In all of the groups the largest expenditures are for food. Beyond $3,000, however, expenditures for shelter and home maintenance generally run higher than those for food. Expenditures on attire, which among families with incomes under $1,000 are typically about a third as large as

those for food, are usually more than half as great among families with incomes around $5,000.

The most striking changes occur in the expenditures for "other living" and in the amount of savings. Whereas families with incomes around $800 commonly spend about one-eighth of their incomes for purposes other than food, home, and attire, those at the $5,000 level usually spend about one-fourth or one-third.

The following chart shows a comparison of the expenditures of the group receiving on an average $5,000, $3,400 and $2,700, respectively.

Expenditures of Skilled Workers and Middle-Class Families[1]



The most striking case of large expenditures for "other living" is that of familites of the University of California faculty. Among these families, those with incomes averaging approximately $3,400 spent almost $1,000 for "other living" and those with incomes averaging $5,200 spent as much as $1,900, or more than one-third of their

1. Based on "America's Capacity to Consume" by Moulton, P.72

incomes for the same things. These relatively large expenditures are to be explained in large part by professional and social requirements.

The following table shows a breakdown of items, for four groups of families with incomes about $5,000.

Expenditures for "Other Living" by Families with Incomes about $5,000 (a)[1]

Item	University of California Faculty 1922	Village and Urban Families in Minnesota 1926-28	Federal Government Employees in Five Cities 1927-28	Residents of Amalgamated Apartments New York 1930
Range of income	$4500-$6000	$5000-$6000	Over $3600	Over $4000
Average Income	5219	5282	4320	4955
Other Living:	1905	1119	986	1123
Transportation	515	607	273	92
Medical care	335	117	260	258
Education and Reading matter	121	67	107	262
Organization and professional expenses	265	19	17	41
Recreation and travel	274	69	126	258
Aid to dependents and gifts	237	80	84	(b)
Church and charity	85	103	60	95
Tobacco	21	27	31	30
Unclassified	52	30	28	87

(a) Excludes expenditures for food, shelter and home maintenance, and attire and adornment.
(b) Not separately reported.

The faculty families spent distinctly more for organizations, recreation and travel, and for gifts and contributions, than families included in other surveys.

1. Based on "America's Capacity to Consume" by Moulton, p.74

On the other hand, expenditures of village and urban families in Minnesota were low for these items and also for medical care.

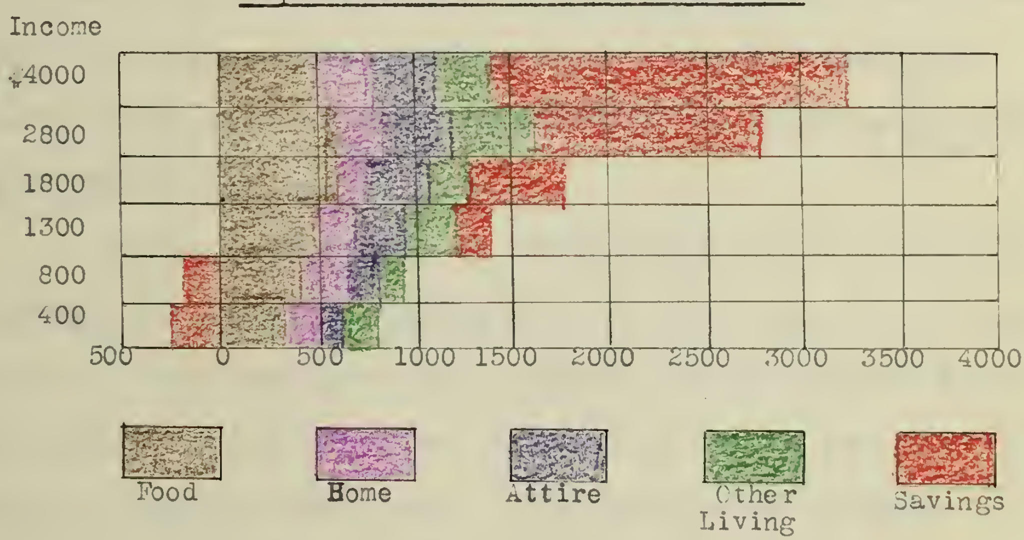
As would be expected, savings were much greater among families with incomes above $3,000 than among those in the lower income groups. There are, however, pronounced variations in the amounts saved. The highest saving shown, both for the class with incomes about $3,400 and for that with incomes about $5,000, are those of village and urban families in Minnesota. For families with incomes around $5,000 these savings amounted to more than a third of their incomes. At the other extreme families of the University of California faculty, with approximately the same income, saved only 7 per cent of their incomes, and residents of the Amalgamated Apartments, in 1930, only 4 per cent. The latter case is in part explained by the onset of the business depression, and the inability immediately to adjust living expenses to reduced incomes.

The farm families in 1930 constituted 23 per cent of all families of two or more persons. With very few exceptions their incomes were less than $6,000, and a large proportion of them had incomes of not more than $1,500. Their incomes, therefore, cover about the same range as that of wage earners, skilled workers, and the business and professional families discussed in the preceding sections.

Conditions of living among farm families, however, differ greatly from those prevailing among the wage-earning and urban middle-class families. For the most part, residences are attached to the farm properties, and large quantities of food are produced on the farm. The cash income of farmers is, therefore, spent in a way quite different from that prevailing among wage-earners' families. Much of this difference disappears, however, when the occupancy of homes and food obtained from the farms are evaluated and included in the measurement of the income of farm families.

The following chart is based on surveys made in three counties in Ohio in 1926, two counties of Kentucky in 1928 and 1929, seven counties of Wisconsin in 1929 and two Appalachian Highland counties in 1930. This chart has six sections representing various incomes from $4,000 to $400.

<u>Expenditures of Farm Families</u> [1]



1. Based on "America's Capacity to Consume" by Moulton, p.77

If this chart is compared with those relating to wage-earners' families, it will be noted that farm families in the $800 income level spend slightly more for food, for attire, and for "other living" than families of wage-earners. They spend somewhat less than wage-earners for shelter and home maintenance on account of the relatively low rental value of farm homes.

For incomes about $1,500, however, farm families spend smaller amounts than urban families for each of the four categories of living expenses: food, shelter and home maintenance, attire, and "other living." While farm families, like non-farm families, increase their expenditures on each of these four items as their incomes are increased, the rate of increase in expenditures is not as rapid as among the non-farm families. Thus, when incomes of $4,000 are reached, the farm families spend only about three-fourths as much for food and for attire as do non-farm families, and only about half as much for shelter and home maintenance and for "other living."

These differences in expenditures for living are, of course, reflected in differences in savings, the average savings of farm families with incomes from $2,500 to $6,000 being typically four or five times as great as the average savings of non-farm families. The savings of farmers, in these surveys, include income reinvested in their farm properties, and the net increase in their herds of livestock.

(b) The Aggregate Consumptive Expenditures

In the preceding paragraph the ulitization of family incomes has been shown. Let us now consider the aggregate consumptive expenditures. The analysis which follows is divided into three parts: the first shows the expenditures of families classified by income groups; in the second, consideration is given to the expenditures of unattached individuals; and the third indicates the expenditures of the population as a whole classified in broad economic groups.

Families of two or more persons comprise 91 per cent of the population. In consequence, their expenditures for food, shelter and home maintenance, attire and adornment, and "other living" constitute the bulk of the total national expenditures. The method of estimating aggregate family expenditures is the simple one of applying the average amount spent by families in the various income classes, as estimated in the previous section, to the number of families in each class as reflected in the analysis, Part I, Section 4 (b). In order to show as concretely and adequately as possible the various expenditures in different groups, the data is classified in more than one way.

First, the aggregate consumptive expenditures in 1929 of families by income groups are analyzed in the following schedule.

Aggregate Consumptive Expenditures of
Families by Income Groups, 1929

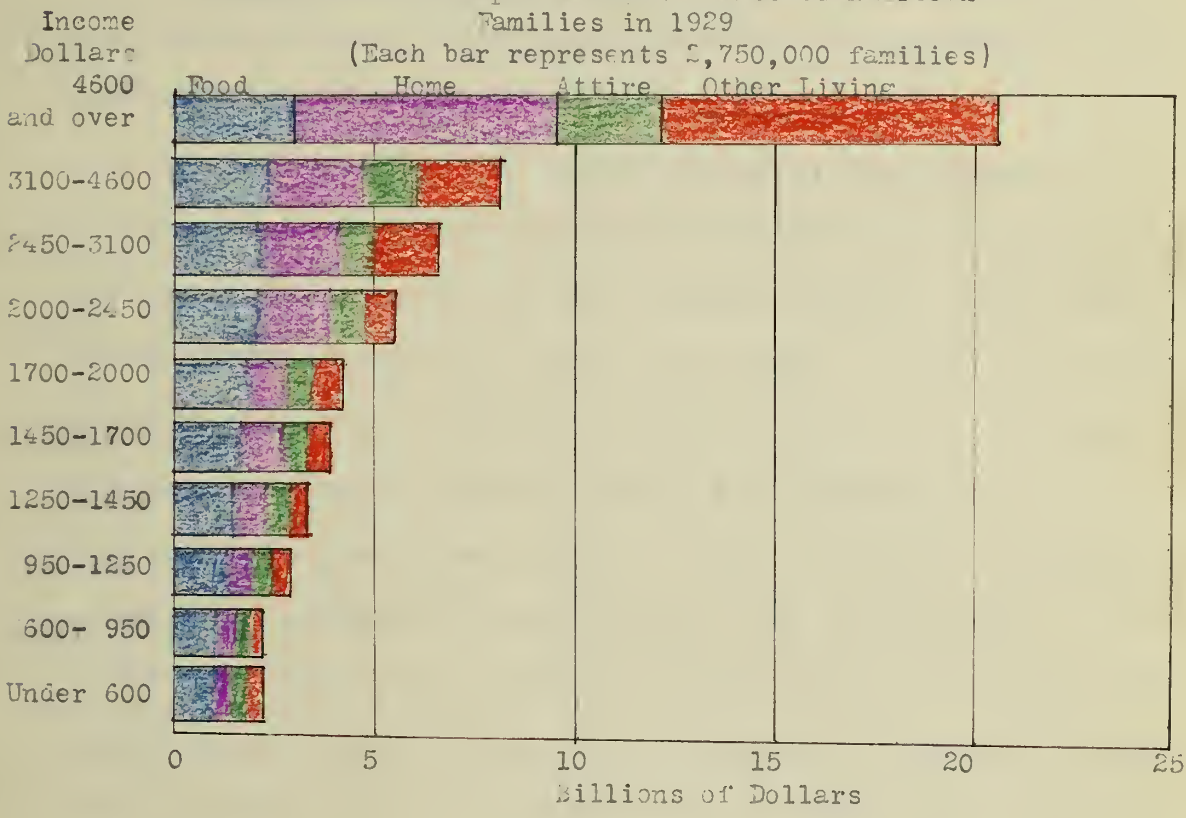
Income Class (In Dollars)	Number of Families (In Thousands)	Aggregate Consumptive Expenditures (In millions of dollars)
Under $1000	5899	5038
$1000 to 2000	10455	14563
2000 to 3000	5192	11096
3000 to 4000	2440	7096
4000 to 5000	1232	4480
5000 to 10000	1625	8271
10000 to 20000	412	3519
20000 to 100000	195	4304
100000 and over	24	3637
All Classes	27474	61977

The consumptive expenditures of the 78 per cent of the families (21.5 millions) having incomes below $3000 - aggregated 50 per cent of the total expenditures for all families. The expenditures of the 16.4 million families with incomes below $2000, comprising 60 per cent of the population, aggregated nearly one-third of the total. Families with incomes above $20,000, numbering 219,000 and comprising less than one per cent of the population, consumed in the aggregate, (with allowance for direct taxes and philanthropic contributions) as much as 5.8 million families in the $1000 to $1500 income class. This indicates a greater consuming power and hence the need for greater production provided a more equitable distribution of income can be made between the higher and lower income groups.

Next the families of the nation are divided into ten equal groups, each containing 2.75 million families.

The following chart shows the estimated annual expenditures for each of the four types of consumptive expenses - food, home, attire and "other living." Direct taxes and philanthropic contributions have been eliminated so far as is possible in this chart as in previous considerations. In the first group these items amount to 1.2 billion dollars and in the second group to less than 100 million dollars.

Classified Consumptive Expenditures of American Families in 1929[1]
(Each bar represents 2,750,000 families)



1. Based on "America's Capacity to Consume," Moulton, p. 84

The 10 per cent of the families at the top of the income scale reaches down as far as those with incomes of $4600. The consumptive outlays of these families equaled approximately one-third of the total. The proportions applying to this group as compared with total ex-

penditures by all families for the major classes of commodities were as follows: food 17 per cent; shelter and home maintenance, 35 per cent; attire and adornment, 30 per cent; "other living", 48 per cent.

An equal number of families at the bottom of the income scale, with incomes under $600, consumed 4 per cent of the total, apportioned on the basis of total spent by all families, as follows: food, 5 per cent; shelter and home maintenance, 3 per cent; attire and adornment, 4 per cent; "other living", 3 per cent.

Comparing the expenditures of the above two groups, each of which numbered 2.75 million families, it is learned that those in the highest ten per cent spent three times as much for food; ten times as much for home maintenance, etc.; seven and one-half times as much for attire; and twenty times as much for "other living" as did those in the lowest group. This is rather a flagrant example of economic inequality and the indication is that those families in the lowest ten per cent group must have suffered the lack of many real necessities of life while those families in the highest ten per cent group had all the necessities and comfort and many luxuries in addition. The fact is recognized that there should be some economic difference due to abilities, but the difference in abilities is not measured by economic differences for the reason that many in the upper groups economically are there due to reasons other than ability and many of those in the

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lower groups are there because of lack of opportunity and not because of lack of ability.

If expenditures for "other living" alone be considered, the fact is revealed, that nearly half (8.4 billion dollars) the total (17.5 billion of dollars) was made by those in the upper 10 per cent group of families. Half of the total for attire and adornment was spent by the upper 24 per cent; half of total for shelter and home maintenance by the upper 20 per cent; and half of the total for food by the upper 36 per cent.

In the last several pages consideration was confined to families of two or more persons. Let us now consider individuals who were not members of families in 1929. This class consisted of 9 per cent of the total population or approximately 11 million persons. Those in eleemosynary institutions and inmates of prisons comprised about 1.5 million persons. They are not included here because their consumptive needs are met chiefly at public or institutional expense. Another 1.5 million persons consists of those attending boarding schools or in other quasi-family groups, hence eliminated because of being supported by parents and therefore considered previously. After the above eliminations there remains about 9 million unattached individuals who are income recipients.

There is the greatest variation in incomes and mode of living among these unattached individuals. Some

are wealthy and spend lavishly; the great majority are people with moderate incomes; while at the bottom are tramps and intermittent workers with no fixed place of abode. There is relatively little statistical information available regarding the use of income by unattached individuals.

Again it is found necessary to refer to "America's Capacity to Consume" by Leven, Moulton and Warburton, from which the following is quoted (pages 86 and 87): "Despite the paucity of information, however, it has been found possible to make a rough estimate of the consumptive expenditures of these individuals for the year 1929. The aggregate amount works out at a little over 13 billion dollars apportioned as follows (in millions of dollars):

Food	2778
Shelter and home maintenance	3530
Attire	2690
Other living	4183"
Total	13181

The above estimates are somewhat crude, as admitted by the authors, however, they do afford some idea of the consumptive expenditures of the approximate 9 million unattached individuals who were income recipients in that year.

The table on page 79 is the result of combining two tables exhibited in "America's Capacity to Consume" (Pages 87 and 88).

The table on page 79 shows a general picture of

Classification of Families and Unattached Individuals into

Broad Economic Groups

Group	Income Range		Number		Percentage of Total Population	Income in Billion Dollars
	Families	Unattached Individuals	Families	Unattached Individuals		
Wealthy	$25,000 and over	$1,500 and over	160,000	66,000	0.6	18.3
Well-to-do	10,000 to 25,000	5,000 to 15,000	471,000	241,000	1.8	8.7
Comfortable	5,000 to 10,000	2,500 to 5,000	1,625,000	632,000	5.9	12.9
Moderate Circumstances	3,000 to 5,000	1,500 to 2,500	3,672,000	1,900,000	13.7	17.5
Minimum Comfort	1,500 to 3,000	750 to 1,500	9,893,000	3,649,000	35.7	24.6
Subsistence and Poverty	Under 1,500	Under 750	11,653,000	2,500,000	42.3	10.9
All Groups					100.0	92.9

Consumptive Expenditures of Families and Unattached Individuals

By Broad Economic Groups

(In billions of dollars)

Group	Income	Expenditures: Food	Home	Attire	Other Living	Total
Wealthy	18.3	0.4	2.2	1.0	5.3	8.9
Well-to-do	8.7	0.7	1.8	0.8	2.3	5.6
Comfortable	12.9	1.9	3.3	1.5	3.4	10.1
Moderate Circumstances	17.5	3.8	4.4	2.3	4.3	14.8
Minimum Comfort	24.6	7.6	6.2	3.6	5.0	22.4
Subsistance and Poverty	10.9	5.4	3.6	1.9	2.4	13.3
All Groups	92.9	19.8	21.5	11.1	22.7	75.1

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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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the aggregate amounts spent for various purposes by all families and unattached individuals in the chief economic strata, more or less arbitrarily arranged.

The first two groups, the wealthy and well-to-do, constitute only 2.4 per cent of the population, yet, they account for 6 per cent of the total spent for food, 19 per cent of the total spent for shelter and home maintenance, 16 per cent of the total spent for attire, and 33 per cent of the total spent for "other living". In comparison with the lowest group, subsistence and poverty, the last named group constitute 42 per cent of the population, yet, they account for only 27 per cent of the total spent for food, 17 per cent of the total spent for shelter and home maintenance, 17 per cent of the total spent for attire, and 11 per cent of the total spent for "other living."

It is not alone the fact of economic inequality that is noticeable, but the magnitude of the inequality becomes more apparent as statistics are compiled and comparison made.

(c) How much can we consume?

This leads one to ask, how much can we consume, or what is the potential consuming power of the American people as compared with actual consumptive demands, limited by the incomes available.

Some people believe that we are producing all that can be consumed and that if production was "stepped up"

the saturation point in consumption would soon be reached and that there would follow a piling up of inventories with a resulting decrease in prices, heavy losses and a general business depression. This belief is based, not on the lack of purchasing power, but because persons holding to such belief think that the satiation of human wants would be accomplished.

The national income in 1929 was the greatest that this country has ever enjoyed and yet, were the consumptive wants of the people fully or reasonably satisfied? The data previously exhibited regarding the incomes and consumptive expenditures of American families at the various income levels furnish an adequate basis for such an examination.

As a basis for further consideration let us examine the following sliding-scale increase in family incomes.[1]

Number of Families (In thousands)	Income in 1929 (In Dollars)	Assumed Percentage of Increase in Income	Average Income after Increase
5779	0 to 1000	75	$1139
5754	1000 to 1500	60	1994
4701	1500 to 2000	50	2608
5192	2000 to 3000	40	3389
2440	3000 to 4000	30	4468
1232	4000 to 5000	20	5336
2376	Over 5000	0	--

1. America's Capacity to Consume, p. 117

It is believed fair to assume that if the 5.8 million families having incomes in 1929 of less than $1000 were to have those incomes increased from an average of $650 to about $1150, their consumptive expenditures would be comparable to that prevailing among the families already in that general income class. Similarly it is believed reasonable to assume that if the income of each of these groups were "stepped up" to higher levels, their expenditures for consumptive goods would be similar in amount and general character to those already in the comparable higher group. If this assumption be correct, the expansion of consumptive demands resulting from the increase in incomes shown on page 81 would be as indicated in the following table.

[1]Effect of Increased Family Incomes upon Consumptive Expenditures

Family Income in 1929 (In dollars)	Aggregate Consumptive Expenditures (In millions of dollars)			Percentage Increase in Consumptive Expenditures
	Actual 1929	With increased incomes	Additional Expenditures	
0 to 1000	4065	6634	2569	63
1000 to 1500	7025	10205	3180	45
1500 to 2000	7538	10823	3285	44
2000 to 3000	11096	14904	3808	34
3000 to 4000	7069	8913	1844	26
4000 to 5000	4480	5247	767	17
Over 5000	20704	20704	---	--
All classes	61977	77430	15453	25

"The reader will bear in mind that in this computation savings have been eliminated, the figures representing estimated outlays for current consumption."

1. "America's Capacity to Consume", p. 118

The preceding table takes into account only families of two or more persons and yet, the increase in consumptive expenditures would amount to about 15 billion dollars, or nearly 25 per cent above the 1929 level. If a like increase be made in the incomes of unattached individuals the total increase, on the same basis, would amount to nearly 19 billion dollars.

Breaking down the increase of family expenditures into the major types of consumptive goods and services we would show an increase in food of 3.1 billion dollars, or 18 per cent; shelter and home maintenance 4.7 billion, or 26 per cent; attire and adornment, 2.2 billion, or 27 per cent; and other consumers' goods and services, 5.4 billion, or 29 per cent.

What minimum income for a family of four persons would afford the necessities and some of the comforts of life? Various estimates have been made ranging from $2000 to $3000. Let us consider the amount of $2500, which is half way between the two estimates quoted, as being such an income as would afford the necessities and some of the comforts of life for the average family, and see how many of our families in 1929 had such an income. The table on page 11a shows that 30 per cent of the families of our country had such incomes and that 70 per cent had incomes ranging up to $2500. Under the scale of increases which has been used nearly half of all families, averaging four persons, would still have incomes below $2500, and approximately one-fourth would

be below $1800. The late Senator Long from Louisiana advocated a minimum income of $5000 for each family. Let us see what half of such an income for all families would result in.

The increase in consumption among the 19.4 million families whose income would be raised from below $2500 to that level would be as follows: for food, from about 10 to 14 billion dollars, or 40 per cent; for shelter and home maintenance, from about 7 to 11 billion, or 65 per cent; for attire and adornment from less than 4 to 6 billion dollars, or 65 per cent; for other consumer goods and services, from less than 5 to nearly 10 billion dollars, or 115 per cent. In aggregate terms the increase in consumptive expenditures would be more than 16 billion dollars. Such an increase would raise the demand of families for major classes of goods as follows:

Item	Per cent
Food	20
Shelter and home maintenance	21
Attire and adornment	22
Other consumers goods and services	23

The student, be he economist, business man, or anyone else sufficiently interested in the subject, will ask from whence can these increases in income come. He may argue that, if wages and salaries increase, prices must rise also in order for the business man to maintain profits. That is the crux of the whole question. We are

operating under a profit economy and producing for profit rather than for use. There is a time in the life of every young nation when rugged individualism must come to the front and industry and business must be helped and promoted until that country "finds itself" and takes its place among other nations in world affairs. That time has long since arrived in America. Business and industry has now reached the size that they must be regulated and even controlled if necessary for the good of society as a whole. They should be allowed a reasonable return on sound invested capital, and this can be done and, yet, every family and individual who can and will work can have the necessities and some of the comforts of life.

First of all production would have to be increased which would increase profits normally. This can be done with present equipment; to the extent of 19 per cent.[1] Next by limiting the amount that any individual may inherit, the government would come into more money for expenses thus limiting the tax rates, and with taxes reduced business profits will increase. And last, but probably not least in importance, there should be a limit on salaries, bonuses, and "rake-offs" usually concealed from the public. Some such an amount as $25000 per year should be the limit, because anyone drawing more than that amount is taking it away from others who need it more. Those others may be fellow employees, or customers, or both.

1. "America's Capacity to Produce", p. 423

The authors of "America's Capacity to Consume" in the final chapter of the book make certain succinct statements which it is believed, are well worth quoting at this time.

"1. During the so-called 'new era' of the gay twenties the United States was not living beyond its means."

"2. There has been a tendency, at least during the last decade or so, for the inequality in the distribution of income to be accentuated."

"3. Vast potential demands alike for basic commodities and for conventional necessities exist in the unfilled wants of the masses of the people, both rural and urban."

"4. The United States has not reached the stage of economic development in which it is possible to produce more than the American people as a whole would like to consume."

"5. We cannot materially shorten the working day and still produce the quantity of goods and services which the American people aspire to consume."

"6. In emphasizing the need of increasing consumption, we must not forget the necessity of simultaneously expanding production."

(d) <u>The Low Living Standards of the Low Income Groups</u>

In preceding sections of this work, the income

and expenditures of families and individuals have been considered and it has been pointed out that a large percentage is below the subsistence level. Dr. Leila Houghteling, late of the Faculty of Graduate School of Social Service Administration of the University of Chicago, made a study in 1925-26 which was published in 1927 under the title, "The Income and Standard of Living of Unskilled Laborers in Chicago." This work consisted of research in the field and the tabulation and study of results obtained. More than four hundred families were contacted weekly. Quoted from the introduction to the above book are the following excerpts; "It was clear that there were two main subjects about which information was desired: one relating to the amount of the family income, and the other to the question of the kind of living conditions that could be provided in Chicago out of this income. Briefly stated these two lines of inquiry were:

1. The extent to which the income of families where the chief wage-earner is an unskilled worker - is augmented from sources other than the earnings of the husband and father.
2. The adequacy of the total family income derived from all sources to provide for a normal standard of living."

"The Chicago Standard Budget for Dependent Families," by Florence Nesbitt, with which comparisons were to be made listed the following budget for a family

of four as being about the subsistence level."

Food	$468
Rent	360
Clothing	240
Fuel	90
Household	57
Doctor and Dentist	48
Education	12
Miscellaneous	125
Total	$1400

When a comparison was made between the earnings of the chief wage-earners and the Budget estimates, it was found that in more than two-thirds of the families these earnings were insufficient to provide a standard of living equal to that provided by the Chicago Budget. This fact is especially significant when it is recalled that this group of laborers was unusually well situated, as they had been regularly employed throughout the year 1924 and had, for the most part, been in the employ of their firms for several years.

The great importance of the other sources of income, therefore, became evident: and it was not surprising to find that there were other sources of income in 355 families. These sources were found to include the earnings of wives and children; payments from boarders and lodgers; income from property, benefits, borrowed money; and gifts from friends and relatives. The utilization of these sources is important, not only because of their value in increasing the size of the family fund, but because of the consequences involved in the use of some of them. The fact that it was necessary in 108 families for the

mothers to work - and to work at jobs of particularly arduous type - means undoubtedly a lowering of the standard of living in those families and the consequent sacrifice of the welfare of the dependent children in the families. The presence of boarders, or roomers, in 100 families, and the overcrowding which results from these additional members of the household, constitutes another factor in lowering the standard of physical and moral well-being in those families, which cannot be disregarded.

When all these sources of income had been included, it was found that just over one-half of the total number of families were able to maintain a standard equal to, or above the estimated Budget. Since this was the case, it became necessary to learn what standard the group as a whole was maintaining in order to answer the question as to whether the Budget estimate was a reasonable one. Analysis of the general living conditions of the whole group and of the food consumed by a smaller number of families has shown quite clearly that the families living on a lower standard than that provided by the Budget estimate are living under conditions which fail utterly to provide a standard of living that will make possible a high standard of physical, mental, and moral health and efficiency for adults, the full physical and mental growth and development of children, and make provision for their moral welfare. Further emphasis is given to this conclusion by the discovery that

a relatively large number of families - 134 during the year 1924 - found it necessary to supplement their incomes by making use of the free services provided by social agencies. As these services were for the most part provided by medical agencies, it can be seen how important this kind of assistance is, both to the families in question and to the community as a whole. Without it the general standard of living would fall to an extremely low level.[1]

In addition to the above much of the income of the present day with its resultant cost financially, morally and spiritually can be laid at the door of economic inequality. Children and young people reared in slum areas and those adjacent thereto look upon those in better circumstances and long for the comforts that others have and when there is no other way open they resort to thievery, burglary, harlotizing and the like, which many times results in murder. The environment in which they live is conducive to this sort of thing. They believe, and many times are taught, that the world owes them a better living. They set themselves against society and create a world and code of ethics all their own, and aside from financial cost to society as a whole, life is made less safe to those who are not of that class.

It is not intimated that the poor as a class is less honest, but that much crime comes from that class that might be avoided by a lessening of economic inequality.

1. "The Income and Standard of Living of Unskilled Laborers in Chicago," by Leila Houghteling, p. 128

(e) The High Living Standards of the High Income Groups.

At the other extreme in our economic order are those described by Thornstein Veblen as the leisure class, in whose lives the fact of conspicuous consumption plays a large part. Without going into the history and background of this sort of thing it will suffice for present purposes to define the term, give some illustrations and show the results so far as they effect or have a bearing on economic inequality.

(1) Conspicuous consumption is that type of consumption of goods, or services which makes the one indulging therein stand out from and be noticed by some of his fellows and which keeps one abreast of other of his fellows in whose stratum of society he wishes to maintain himself. Conspicuous consumption is practiced more or less in all strata of society, though the practice in the lower stratum may not be noticeable to the casual observer. Look, for instance, at the man who is the head of a family and earns only $25 per week, yet pays $35 per month for rent. He cannot afford to pay such an amount for rent, but he wants his friends and relatives who visit him to see where he lives and how much better it is, or how nearly on a par it is, as the case may be, with where they live. He may, and probably does, do without other things really more necessary for his comfort and well being, but his sense of values is warped. Again a certain "movie"

star told a friend of mine that when he started on the road to stardom he spent $100,000 the first year, for yachts and such other items that he had known nothing about before, merely because he had to "keep up with the crowd." Why is it that some families consisting of husband and wife have a half-dozen automobiles and two chauffeurs when they cannot use more than one each at a time and more than likely both drive? The answer must be, and is, conspicuous consumption. Why is it that some men earning $4000 or $5000 a year maintain a maid so that their wives may spend their time playing bridge or doing something else just as useless? The answer is conspicuous consumption.

The higher the stratum of society one maintains oneself in the greater the outlay for conspicuous consumption and it is such absolute waste in great amounts that keeps ever bringing to our attention the economic inequality that exists in our land. But one may ask if this does not give work to the worker. Viewing it upon a short-run basis perhaps yes, but in the long run wastefulness to the individual is wastefulness to the nation. Perhaps it might be illustrated in this way. Some of the millionaire racing-stable owners who inherited great fortunes and never earned a dollar by any kind of productive labor, maintain those racing-stables to a large extent, by purses won at the tracks. These purses are made up by the racing association that own and operate the race-track. Where

do they get the money for these purses? It comes from gate receipts and the percentage "rake-off" of all money wagered, and much of both of these items comes from the pockets of wages and salary earners who can ill afford such expenditures. Such expenditures keep the money thus used from being spent for consumption goods and to that extent lessens labor payrolls, interest and profits.

3. Control of Public Opinion

(a) A Business Press

The business press is no doubt one of the outstanding mediums for creating and controlling public opinion. For this reason prospective jurors are asked, have you read about this case in the newspaper, and if the answer is in the affirmative, the juror is promptly challenged, that is, rejected. The indication is his judgment has become warped by what he has read. Likewise when a shrewd criminal attorney is defending some criminal guilty of a dastardly crime he has the trial postponed as long as possible in order that public opinion, created by the newspaper, will languish and thereby a more favorable verdict may be had for his client. Let the leading local newspaper take issue with an aspiring political office seeker and his doom is usually sealed; but on the other hand, let it support the most unworthy candidate and his election is almost assured.

Is the press capitalistic in its news? Nothing could be truer. From the United Press right down to the "yellowest journal", or tabloid, the newspaper is and must be a capitalistic organ if it wishes to remain in business. It must be consciously looking forward to and promoting economical and political views of those who maintain it. And who are they? The business interests that advertise in the newspaper. No

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newspaper or magazine could ever stay in business if it had to depend on receipts from circulation. No, it is its advertising receipts that pay its way. Naturally then they favor the advertiser, and the most influential inculcations of the American press relate to Nationalism on the one hand and materialism and capitalism on the other. The press is controlled by large propertied classes who are definitely committed to capitalism, the profit motive and the right of private property. Newspapers do not support policies contrary to this class's policies.

The result is that when questions arise between capital and labor, the true picture is never presented. If the employees of a factory strike, regardless of reason, the newspapers "headline" the item and picture it as black as possible, but if it happens to be a lockout one would have to look for the item to find it. Such biased opinion and action is one of the consequences of economic inequality. The public is at the mercy of the press for its news and it comes to it colored to suit those who advertise in the press.

Is the press monopolistic? Nothing could be truer. Willard Grosvenor Bleyer of Wisconsin University made an investigation of the extent to which there is monopoly control by one owner of all the

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papers in individual cities of 10,000 to 100,000 population in America.[1] Taking all the cities, 1305 in number, there are only 163 which have more than one independent daily. There is therefore a monopoly control of 87 per cent of this number. "In such cities as Charleston (South Carolina), Des Moines, Duluth, New Bedford (Massachusetts), New Haven, Springfield (Massachusetts), and Wilmington (Delaware), there is monopoly control by a single interest of all the daily papers."[2] The following quotation from the National Publishers Association's annual report for 1934 shows wherein, to a large extent, the interests of the press are diametrically opposed to those of the majority of the public at large.

"This has been a most unusual year in the publishing field and the National Publishers' Association has due cause to be proud of its operations during this year in the interest of the entire publishing industry."

"Wagner Labor Bill. This legislation would have been very costly to all publishers whether or not they operate their own printing plant. We took a very active part in killing this legislation."

"Tugwell Pure Food and Drug Bill. As originally proposed, this legislation would have been

1. "Journalism Quarterly," Vol. II, March, 1934, pp. 22-35.

2. "Capitalism and Its Culture," by Jerome Davis, p. 297.

negroes in industrial cities of [illegible], in 1920, [illegible]
[illegible].[1] During the [illegible]
[illegible]

[illegible]

1. [illegible]

2. [illegible]

a serious blow to all advertising. Your committee and executives were finally successful in modifying this legislation."

"Unemployment Insurance. This bill provided for a tax of 5 per cent on all payrolls. Its seriousness speaks for itself, and your representatives aided in preventing its passage."[1]

In taking such an active part in the above mentioned legislation was the "Association" biased in favor of the capitalistic class as opposed to the laboring class? The answer can be only yes, and it clearly illustrates one of the consequences of economic inequality.

In 1933, in New Haven, the American Federation of Teachers arranged a large meeting at which Professor John Dewey was a guest speaker. In the course of his remarks he urged the teachers to organize and affiliate with the Federation of Teachers and so protect their salary scale. It so happened that the owner of a local press was strongly in favor of reducing the teachers' salaries. The newspaper reporter was forced, because of censorship, to write three successive accounts of this meeting and finally apologized for what actually was printed. Doubtless, more truth is printed under

1. Bulletin, National Publishers' Association, July 16, 1934; cf. The Nation, August 1, 1934.

capitalism than the prejudice of the owner might approve, simply because of the intelligence and honesty of his reporters who do not show his bias.[1]

Even such a mild suggestion for change as that offered by a committee headed by Dr. Ray Lyman Wilbur (a Republican Secretary of the Interior) for the partial socialization of medicine met with vigorous attack by the editor of the New York Herald Tribune, who reiterated the ridiculous charge that it would involve "medical soviets."[2]

Unless one knows the inside facts concerning a newspaper it is impossible to judge how far the ownership of a paper is reflected in the news policy, or how far it is subservient to the financial interests. The honest student of our press is aware, however, that huge propaganda campaigns have been carried on. It is true, that if sufficiently united, the press can force major changes in American policy. Hearst's dramatic cable to his representative in Havana, who wanted to return home because "there will be no war," still needs to be remembered. It read, "You furnish the pictures and I'll furnish the war." The war came.

Professor J. O. Hertzler in a textbook gives the

1. "Capitalism and Its Culture," Jerome Davis, pp. 308-309.
2. New York Herald Tribune, December 4, 1932.

following summary analysis of the difficulties with the American press as a factor in the formation of public opinion.

1. Distortion, coloring, exaggeration and suppression of news.

2. Propaganda - "the propaganda of the press is the most dangerous kind; it is the covert, unproclaiming type."

3. Sensationalism, muck and sports.

4. Syndicated and standardized news and editorials.

5. Concentration of ownership.[1]

In a democracy a well-informed public opinion is vital to political health. The poisoning of the news is as dangerous as tainted milk, or typhoid water, and when the moneyed interests are propagandized at the expense and to the detriment of the masses the press has become a consequence of economic inequality, by expressing perverted and biased views.

(b) A Radio Monopoly.

Another vital source for the dissemination of both facts and propaganda is the radio. It is estimated that more than 20,000,000 homes in America are equipped with radio receiving sets. Many people, who are very little if at all, interested in the newspaper, listen to radio programs, but, on the other hand, those

1. Hertzler, J. O., "Social Progress," 1928, pp. 259-263.

who read the daily papers also listen to radio programs. The broadcasting could be a very important educational medium. If broadcasting were not operated purely from a profit motive the programs would be of a different character. It should be considered and operated more on the basis of a public utility. In Europe and England broadcasting is government owned as well as controlled, hence the programs are of an entirely different character. They are educational, inspirational and religious. There is not the bla-bla and balla-ho that we have. One's intelligence is not insulted every time he listens to a program by having some paid propagandist tell him the product he is advertising is, by far, the best of its kind on the market, even though it be a patent medicine that the speaker says is good for everything from ingrowing toe-nails to falling hair. And why do we have to endure such things?

The answer lies back of the fact that the radio broadcasting business in America is a monopoly, owned and controlled by the moneyed interests, on a profit making basis, and to further the interests of said moneyed class by propagandizing and by censoring any suspected address and even by cutting a speaker off the air after he has started if he says things that might be detrimental to moneyed class, though such statement be absolutely true and beyond any question of doubt.

Let us look in on the history of the various broadcasting companies. The first station to broadcast regular programs was KDKA in Pittsburgh in 1920. Owen D. Young of the General Electric Company organized the National Broadcasting Company in 1927 and selected its president. He was, however, ordered by the United States Supreme Court to either give up his interest in the General Electric Company or that in the Radio Corporation of America. Merlin H. Aylesworth was selected as president of the National Broadcasting Company. He had previously helped to direct the notorious National Electric Light Association, whose activities the Federal Trade Commission had exposed to public view. In fact, the Federal Trade Commission found that this organization had taken part in a conspiracy to deceive the public through propaganda for the privately owned utilities.[1] The Columbia Broadcasting Co was started in 1927. It, together with the National Broadcasting Company, has built up an extensive system of chains over which the same program can be broadcast at any time. Another system which has not come in great prominence as yet is the American Broadcasting System which began operations about 1935.

All the commercial stations depend upon advertising revenue for their existence. On both chains the

1. Federal Trade Commission, "Utility Corporations, Senate Document 92, Washington, United States Government Printing Office, 1932.

number of advertisers has increased each year. In 1927, The National Broadcasting Company received $3,760,000 for broadcasting time. In 1928 it and the Columbia Broadcasting Company, which had in the interim been started, received over $10,252,000. In 1929 they received $18,729,000, while in 1930 they received over $26,819,000. For the year 1934 revenue had grown to such an extent that the National Broadcasting Company alone received $27,833,616, an increase of 740 per cent over 1927.

In a democracy it is particularly important that the public be informed; otherwise democracy itself is in danger. Whoever owns the agencies for the distribution of ideas is likely to control the people. Radio today ranks as perhaps the most important force for the dissemination of ideas in American life. What has been done with it?

The Federal Radio Commission has given 172 units to the National Broadcasting Company and 118.81 units to the Columbia Broadcasting System. This means that only 153.56 units were left for all other independent stations.[1]

The National Broadcasting stations have power in watts of 1,148,850, while the Columbia broadcasting stations have 461,950 watts in power. All other stations

1. Federal Radio Commission, "Summary of Broadcasting Facilities," January 20, 1934 (mimeograph).

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

combined have only a power in watts of 396,865.[1] The domination of the radio by the two major chains is almost complete.

That radio broadcasting is conducted purely for profit no thinking person will dispute. H. V. Kaltenborn, news editor of the Columbia Broadcastimg System, says:

> "The chief reproach against American broadcasting as against the American press is that its dominant purpose is commercial. Just as most newspapers are published to make money for those who buy and sell advertising, most radio stations are operated to bring financial returns to those who buy and sell time. Radio stations do those things which help them to make money and leave undone whatever interferes with immediate business success."[2]

The program director of the National Broadcasting Company has said:

> "In commercial programs the primary object is to bring to radio as many listeners as possible; the kind of listeners that will most benefit the particular product which is being promoted....

1. Education by Radio, vol. 4, No. 2, February 15, 1934.
2. Kaltenborn, H. V., in Scribner's Magazine, vol. 8, pp. 489-498, May 1931

> The chief consideration is will this program attract and interest the kind of people who will be influenced to buy the product."[1]

The result of this commercialized base is that the radio must cater to the widest possible audience, in order to make the most effective use possible of its advertiser's time. Dr. Lee De Forest, one of the pioneer inventors who made the radio possible, declares, "nine-tenths of what one can hear is the continual dribble of second-rate jazz, sickening crooning by degenerate sax players, interrupted by blatant sales talk."[2]

It is small wonder that religious and educational broadcasts have suffered severely. When the present radio law went into effect there were ninety-four educational institutions broadcasting. When these institutions were forced to compete with profit agencies for channel space the Federal Radio Commission tended to decide the matter in favor of the commercial stations. Columbia University and the University Extension of Massachusetts both gave up broadcasting because of these difficulties.

It is true that occasionally a first-class feature like the Damrosch Symphony can be sold to a national advertiser, but it can be given to the public only so long as

1. W. Orton, Atlantic Monthly, vol. 147, pp. 1-10, January, 1931.

2. Harper's Magazine, vol. 163, pp. 714-726., November, 1931.

the advertiser cares to continue to pay the expense. Another example of the difficulty of operating an educational program effectively is given in Wisconsin. The University of Wisconsin operated Station WHA at Madison. The Wisconsin department of agriculture and markets had another station. They jointly proposed to the Radio Commission that they construct a single station to be operated so that it could be heard all over the state of Wisconsin on a 900-kilocycle frequency. Their request was denied, because if the state of Wisconsin operated one effective educational broadcasting station it might interfere with a commercial station in Buffalo. Station WSUI of the State University of Iowa was forced for a similar reason to content itself with a low power which could not reach a city 200 miles away. Station WCFL in Chicago, established by the Chicago Federation of Labor was promised in December, 1921, by the Federal Radio Commission that it could build a 50,000-watt transmitter. Actually, however, it was never permitted to do so because of the opposition of commercial interests.[1]

Naturally since the primary purpose of radio operation is private profit, controversial material is not enthusiastically welcomed by the broadcasting companies. Moreover the radio broadcasting companies are

1. "Empire of the Air," Ventura Press, Ventura, California.

pretty closely allied with the power interests, which means that they may have certain attitudes which they wish inculcated into the public mind. Joy Elmer Morgan, editor of the Journal of the National Educational Association and chairman of the National Committee on Education by Radio, says: "There is a radio monopoly with roots in the power trust, with a direct interest running into billions of dollars for the suppression, or distortion, of important types of public information."[1]

This testimony is corroborated by Ira E. Robinson, formerly a member of the Federal Radio Commission.

> "Radio ought to be devoted largely, halfway anyway, to the purely educational uplift of the people. It is devoted today by certain large interests to educational purposes of questionable value -- an educational view subtly in behalf of the public utilities of this country, a fixing of the minds of the boys and girls who are to be future citizens so that when there is an application for increase of rates for electricity and gas, they may not oppose too much. That is plain talk but I shall not retract it.

1. Morgan, J. E., "The New American Plan for Radio," the National Committee on Education by Radio, 1934, p. 5.

> General Electric, Westinghouse and others are in a situation to do great service by radio, but they are in it for private gain, the enhancement of their own big interests."[1]

Not only is there a subtility in programs as above, but it cannot be denied that there is censorship also. The American public may not realize the extent to which it is used. One might have expected Mr. Kaltenborn, since he is himself a radio speaker, to have favored the Radio Corporation. But Mr. Kaltenborn was once injudicious enough to favor the recognition of Russia over the radio. At this time he was speaking for the Brooklyn Eagle. As a result the contract with the Brooklyn Eagle was unceremoniously terminated and he was thereafter barred from station WEAF.

A couple of years ago Father Coughlin in Detroit bitterly attacked the Socialist Party. Norman Thomas and the Socialist Party tried to buy time on the radio to answer these attacks only to be met by a contract stipulating that in his speech Mr. Thomas should make no reply to the statement of Father Coughlin.

A notorious instance of censorship was that of Professor William Z. Ripley of Harvard, president of the American Economic Association in 1933. He was scheduled

1. Robinson, J. E. Who Owns Radio? in Journal of the National Educational Association, 19:286, December, 1930.

to speak over the radio and to the National Association of Mutual Savings Banks in June, 1932. The National Broadcasting Company finally refused to broadcast his address. Professor Ripley said: "I have been asked to blue pencil my speech. I have never submitted to blue pencilling and will not begin now." Professor Ripley remained steadfast in his position, and his address on public-utility finance did not go on the air.

Sometime later Professor Ripley wrote Jerome Davis in part as follows: "What happened was that the Savings Bank people asked me to submit an abstract of my address for the press. Instead of this I gave them, in advance, the same material which was to come informally by word of mouth to them in practically identical text which was to appear shortly thereafter in the Forum. This copy they handed to the representative of the radio companies to look over before I spoke. He went through it with a blue pencil and struck out the name of every specific utility company which I cited to give point to my warnings to savings banks, as respected the soundness of some of their investments. The Insull companies, Cities Service, Associated Gas and Electric (now in the hands of banks which had peddled their securities) - these and others were frankly and openly discussed by me, as you will find from looking at the Forum article in question. I refused to omit these names in my address.

The radio man said it could not be accepted therefore."[1] The National Association of Broadcasters issued in 1933 a book of 191 pages of propaganda for commercial radio. It explained away the Ripley incident in the following words: "The truth is that Dr. Ripley was scheduled to speak at a convention of savings bank officials once and submitted a script, but the speakers before him on the program used all the available time, they never reaching him on the radio part of the program. There never was any censorship of his speech by the broadcasters at any time and had he been reached in the program, he would have delivered it as it had been originally planned."[2] Dr. Ripley replied to the above as follows: "The excerpt from their official volume is absolutely false in every particular."[1] Taking everything in the circumstances under consideration the writer prefers to believe Dr. Ripley in this case.

A volume could be written on the subject, the radio as an instrument of economic inequality, but it is believed that enough evidence has been submitted to convince the unbiased reader that the radio, as controlled in America, is an instrument of economic inequality.

1. Davis, Jerome, Capitalism and Its Culture, pp. 325-326. Farrar & Rinehart, New York, 1935.

2. National Association of Broadcasters, "Broadcasting in the United States," 1933, p. 174.

(c) A Refracted Education.

We have been taught, from the early grades in grammar school, certain fundamental principles including patriotism. The school has been the means of emancipating children from the shackles that bound their parents socially and economically as well as educationally.

Through the school, and because of it, children have raised themselves to higher strata of society and higher standards of living, and may it ever continue to be thus, in an increasing measure. This has not always been true. In the early days of our republic free public school education was vigorously opposed by the propertied interests. But those days are gone, it is hoped, forever, and high tribute must be paid to the incalculable service which the public schools have rendered the nation. Yet even the schools cannot help being affected by the environment of capitalism in which they were born and grew up.

Business interests have favored education, just so long as it was to their advantage.[1] In times of prosperity business needs employees with training and education to make money for it, but in times of depression when such need does not exist their attitudes change. It is now history how that during the great depression hundreds of schools were actually closed and practically all had to curtail activities by discontinuing certain classes

1. Judd, C. H., in "School and Society," vol.38, p.260, August 26, 1933

and subjects. Thousands of teachers from grade schools to colleges were dismissed. This curtailment of education in the United States has been enforced with the direct approval and pressure of the business interests. For instance, the United States Chamber of Commerce passed on to local chambers recommendations concerning decreasing school costs as follows:

1. Shorten the school day and hour.
2. Increase the size of classes.
3. Increase teaching hours.
4. Suspend all increases in salary.
5. Reduce salaries.
6. Shorten the school year.
7. Discontinue evening classes.
8. Discontinue kindergartens.
9. Reduce elementary school by one year.
10. Reduce the high school from 4 to 3 years.
11. Charge tuition for high school students.[1]

Not only did the financial classes curtail education during the depression and prevent equality of educational opportunity, but they have from time to time attempted to control public education so as to aid their own profit enterprises. The example of the public utilities is striking, as brought out in the hearings of the Federal Trade Commission. Very often propaganda in the schools was carried on with great skill by the power interests. The testimony before

1. American Teacher, April 1933, p. 17

the Commission brought out that the power companies posted pictures or facts about the state, with their names attached, in schools, colleges and universities. The purpose of the campaign was, as one of the officials of the power interest stated, that, "the school children, constantly seeing the name of the company associated with facts about the state's greatness (begin) to associate the company itself with the progress of the state."[1]

The power interests also had pamphlets written for school children, although the source of the authorship was usually disguised. For example, a "Connecticut Public Utilities Catechism" "for use in the secondary schools of Connecticut was compiled and printed by "the Connecticut Committee on Public Service Information." This discusses electric light and power, gas, the telephone, the street railway and water, in the order named. The pamphlet makes such grossly false and misleading statements as:

> In every case in which a community has attempted to operate a public service industry which is subject to great changes, and developments, like the above mentioned services, it has been found that the costs of the service are higher than when the service is furnished by a private corporation.[2]

As a part of the campaign of public utilities, even universities were subsidized. For instance, Northwestern

1. Federal Trade Commission Reports, Pt. 7, p. 127
2. Davis, Jerome, "Capitalism and Its Culture," pp. 339-340

University received $25,000 a year; Harvard Graduate School of Business Administration $30,000; the University of Michigan $16,000 in 1927 and roughly the same amount in 1928 for research work.[1] The University of Maryland received $12,500. The utilities were instrumental in placing men on the faculties. As one of their executives testified, "We now have twenty-four public utility company executives as members of the university faculty."[2] In fact they actually modified a university course.[3]

Some of the methods used can be seen from the following letter written to E. S. Belden, director of the United Power and Light Company in 1925, by Major Richardson, director of the Pennsylvania Public Service Information Committee.

> "I am enclosing outlines of the public utility course recently run in the University of Pennsylvania and Temple University. The plan was put across in the usual way. We laid the groundwork circumspectly and with care so that the actual suggestion that the course be given came from the faculties of the institutions themselves. The rest was routine."[4]

Professor Grayson, who gave this course in the University of Pennsylvania, admitted that as an attorney he had for years "represented a considerable number of small New Jersey Utilities," that he was treasurer of the

1. Federal Trade Commission Reports, Pt. 7, pp. 70-97
2. Federal Trade Commission Reports, Pt. 4, p. 265
3. Ibid., Pt. 3, p. 378
4. Ibid., Exhibit No. 1202

New Jersey Utilities Association, and that he received compensation from the utilities for lecturing against government ownership. Professor Miller, who conducted a public utility course in another Pennsylvania institution, received from the public utility officials fifteen pages of detailed criticisms of the way he conducted it. He put their criticisms and suggestions into effect.[1]

Much more could be written along this line, but let us now follow another line of thought.

Consider, if you will, the rather heavily endowed institutions of learning in this country and from whence the endowments come, and the probable source of future endowments. In 1933 there were twenty-seven institutions of college standard that had endowments of $10,000,000 or more each, and a total endowment of $815,685,590. This money came from those who could afford to give it, the wealthy class. Any future additions to these endowments will come from the same source, however, the various states in some instances are contributing very largely to the maintenance of some private colleges and universities. These funds come from the taxpayer and the taxpayer is the consumer, rich and poor alike. Nevertheless, it is only natural that the class who contributes to such endowments should want to control the teaching in the institutions in questions/to the extent that nothing totally adverse

1. Federal Trade Commission Reports, Pt. 3, p. 378

to their interests might be taught, whether or not such teaching is based on fact, or whether or not such teaching would be for the good of society as a whole.

In 1932 and 1933 one of the students of Professor Jerome Davis made a study of the occupations and of the directorships held by the trustees of the twenty-seven universities whose endowments are mentioned above. Of the 659 directors information was secured regarding 630, or 95 per cent. The occupations or affiliations of these fall into the following general categories:

1.	Banks, trust companies, insurance, investments	254
2.	Manufacturing and merchandizing	141
3.	Utilities; power, gas, water, coal, oil, telephone, mining	111
4.	Railroads	63
5.	Clergy, educators, physicians, lawyers, and other professional	153
6.	Judges	22
7.	Editors and publishers	7
	Total	751

No person is counted more than once in a single category, but in some cases one individual might be found included as a director in all or several of the first four groups.[1]

The reader has only to look up the following cases, if in doubt, to be convinced that freedom in teaching is limited.

1. Davis, Jerome, Capitalism and Its Culture, p. 345

Dr. Lyford P. Edwards, Rice Institute, Houston, Texas, 1918

Louis Levine, University of Montana, 1918

Professor, Harold Laski, Harvard University, 1930

Professor, Edwin A. Kirkpatrick, Olivet, 1926

Professor, Auerbach, University of Pennsylvania, 1927

Professor, Ralph E. Turner, University of Pittsburgh (and twenty others at the same institution) 1932-34.

In regard to the case last mentioned, Governor Pinchot declared, "The university has been perverted to conform to the views of a small group of wealthy and powerful people. If the Mellons want a school to teach their ideas, let them support it. It is a settled policy of the university to suppress liberal causes and independent figures."[1]

The American Association of University Professors investigates cases where professors have been dismissed in violation of their rights. It is extremely interesting that although there have been hundreds of cases of professors who have been dismissed, it does not have a single case of a conservative who was dismissed because of subservience to financial interests, even in the case of professors who secretly accepted retainers from the public utility interests. The latter pretended to lecture impartially while all the time receiving such pay. "After wide spread investigation," says Jerome Davis, "the writer was

1. American Association of University Professors, Bulletin, March 1935

unable to discover a single authenticated case where one of these men had been forced to leave the university. A few alleged cases were reported, but investigation proved that the professor involved, instead of being discharged, had always been promoted to a position with a higher salary."[1] If discharges are all among those with liberal tendencies (and it is beyond dispute that scores of cases of this kind can be cited) while not a single instance can be cited of dismissal for subservience to the vested interests, it is obvious that education is refracted in the United States.

A concrete example of the danger to freedom because of business control is given in one of our largest universities. Ferdinand Pecora was counsel for the United States Senate Commission on Banking. He had brilliantly conducted the hearings including an investigation into J. P. Morgan and Company. Later he was appointed to an important post by the president of the United States. One of the professors of a certain university secured Pecora to speak. The trustees refused to grant permission for him to speak in any of the university buildings.[2]

It seems probable that education today tends to refract the truth to the degree necessary to harmonize it with the dominant attitudes and practices of those in power in the economic and political world. The effect on the products of our educational system is often: (1) an ignorance as to the really serious maladjustment of wealth

1. Davis, Jerome, Capitalism and Its Culture, p. 357

2. Davis, Jerome, Capitalism and Its Culture, p. 358

in the United States; (2) an acquiescence in the stratification within our American society; (3) an ignorance of and acquiescence in exploitation in the industrial and economic world; (4) the graduates of our educational institutions usually believe in the myth of equality of opportunity unless they have been disillusioned by their own bitter experience; (5) their ideas have undergone a definite process of commercialization; (6) they have not been led to question the validity of the dominant mores or to think through for themselves what patterns of behavior are the most valid in any society.

The conditions above described in education are partly the cause and partly the consequence of economic inequality. They are the cause in that they not only condone, but emphasize, the importance of economic inequality. They are the consequence in that such conditions in schools and colleges would not be permitted were it not for the existence of economic inequality among the people of our country.

(d) <u>An Interlocking Control of Religion</u>

It is difficult for any kind of an organization to operate in an atmosphere permeated with certain ideas and ideals and yet not be affected by these influences. America boasts of being a Christian nation, but as one compares American practices with the teachings of the founder of Christianity, Jesus of Nazareth, similarities are conspicuous by their absence. There is no nearer similarity between the two today than there was in the time of Christ, when he commanded the evil spirits to depart from the demoniac. They departed, according to the record, and entered a herd of swine that immediately rushed into the sea and were drowned. The business men of the community upon learning of this implored Jesus to leave their country. Religion was a good thing so long as it did not interfere with their business. It is not a bit different today. Let any minister denounce the capitalistic practices that make both millionaires and paupers and he will be looking for a new church belore long. It is true that the business man helps support various charitable institutions, but if the proper distribution of the national income was made, that would not be necessary - the charitable institutions would not be necessary.

Christianity as taught by its founder emphasized the value of the individual's personality, not what

he possessed or how he could be used as a tool in the hands of an employer to take money away from someone else and place it in his till. The Bible says, "The love of money is the root of all evil." Money is not to be despised; it is the love of getting it that makes demons of men sometimes, and the extremes to which men will go, with an utter disregard for others, in order to make money is appalling. Jesus once said to a rich young ruler, "Go and sell what thou hast and give to the poor." This young man evidently had something worth salvaging, but, "he went away sorrowful." Many young men since have been caught in the maelstrom of business as it is conducted with a profit motive entirely, and the world has been robbed of mighty benefactors.

André Siegfried, a keen student of America, depicts how our churches have unconsciously conformed to capitalism.

> "Their religion naturally pleases Christian capitalists only so long as they control it. They do not hesitate to reprove the leaders who attempt to put in practice the more revolutionary doctrines of the New Testament, for they maintain that the church should not meddle with problems which it does not understand and is not competent to solve. And immediately

in my mind is forthcoming the thought that in America social reforms cannot be accomplished without funds. So we cannot logically conceive of a church which opposed the doctrine of capitalism without coming up against the ill-will of money. The mysticism of success is the genuine religion in America. Even the conception of Christ has to be adapted to fit the scheme of things. The American Christ is an efficient producer, almost a successful and honest business man. For materialism in America is the real power."[1]

Religious leaders make even more scathing statements. For example, Professor Richard Niebuhr says, "There is no effective religious movement among the disinherited today; as a result they are simply outside the pale of organized Christianity."[2] The vicar of St. Martin's, H. R. L. Sheppard, says, "It seems too evident to need proof that little by little the infirmities of men have reduced the gospel of Christ from an adventure in living to the docile acceptance of traditional formulae."[3]

1. Siegfried, André, "America Comes of Age," p. 154.

2. Niebuhr, H. R., "The Social Sources of Denominationalism," 1929, p. 76

3. Sheppard, H. R. L. "The Impatience of a Parson," 1928, p. 59.

Bishop Charles Fiske says, "America has become almost hopelessly enamored of a religion that is little more than a sanctified commercialism; it is hard in this day and this land to differentiate between religious aspiration and business prosperity. Our conception of God is that he is a sort of magnified Rotarian."[1]

In the face of the above quotations is it any wonder that Christian missionaries complain that native converts after visiting America are sadly disillusioned regarding religion. They had judged America on the basis of the Christian missionary, but found Americans in general no better, and in fact not as good, spiritually and morally, as their own "heathen" brethren.

Professor Jerome Davis quotes a Hindu visitor as follows: "What bewilders the observer is not the occasional aberrations of the Christian nations but their habitual conduct and organization, not their failure but their standards of success, not their omissions to live up to right principles but their insistence that wrong principles are right. Your religion is a noble if paradoxical creed, which affirms that all men are brothers, that humility and poverty are blessings, and riches a a dangerous misfortune, that the way of service and self-sacrifice is the way of happiness. I do not blame you

1. Fiske, Charles, "The Confessions of a Puzzled Parson," 1928, p. 83.

for not reproducing these theories in your practice; evidently they are esoteric and not meant for daily life. What surprises me, however, is that in your practice you erect into a system the duty and happiness of practicing the exact opposite. The normal condition of your social order is an economic civil war, which you hardly trouble to conceal..... The normal canon by which you judge those who have deserved well of the commonwealth is how much money they have amassed, and to them you sell political power. Your creed is exalted, but your civilization is a nightmare of envy, hate and all uncharitableness. I would forego the former in order to escape the latter, and I hope that my fellow countrymen will escape the contamination of Christian society in order that they may be able to retain some of their own not wholly unchristian virtues."[1]

If the underlying philosophic norms of capitalism previously mentioned are at all valid, then Christianity is almost diametrically opposed to capitalism and the criticism of the Hindu scholar may not be entirely unfounded, even if exaggerated. Kirby Page wrote an entire volume to show the contrast between the life and spirit of Jesus and conventional Christianity as it has been practiced.[2] How does it happen that in our modern society we find Christianity and capitalism

1. Davis, Jerome, "Capitalism and Its Culture," 1935, pp. 375-376.

2. Page, Kirby, "Jesus or Christianity," 1929.

in harmonious and happy union? There is seldom a separation on the part of the respectable churches, much less divorce. The answer lies in the fact that the church member is so thoroughly inoculated by his total environment against anything foreign to capitalism, that it never occurs to him to question it. He is a product of the capitalistic system and, like the hog that has his freedom and prefers to spend a good part of his time wallowing in the mud, does not know that there is anything better. This, however, does not excuse the minister who should know better because a part of his preparation for the ministry is, or should be, to know the teachings of Jesus.

This condition in the church is then a consequence of economic inequality. Was it not for economic inequality the church would be supported by its entire membership rather than a few who are financially able to do it and it would not have to compromise with the capitalistic system. It could then stand boldly for the whole truth as it should and it would be a force in the world and be respected by all nations.

(e) A Subsidized State.

There has been a tremendous change in the political set-up of this country. When the Constitution was

was ratified it met the needs of 3,000,000 people in thirteen states along the Atlantic seaboard. Today America has forty-eight states stretching from the Atlantic to the Pacific, Alaska and the Hawaiian Islands and some 130,000,000 inhabitants.

In the early days there was an incentive for able men to enter politics and become leaders. Today the average self-respecting citizen avoids politics, because the politician is looked upon as a crooked, scheming, grafting individual and the gigantic corporations offer as good, if not better, positions, judging from the financial remuneration, with less danger to one's reputation.

No longer does geographical representation so adequately fill the need of the population. The units are so large that it becomes difficult for the average citizen to know the merits of the candidates for whom he votes. In spite of this, our political system has been a great advance over monarchy. It has permitted each citizen to cast his vote, and, at least in theory, the most humble citizen ranks with the most powerful, so far as his one vote is concerned. The system has brought about great changes, oftentimes against the interests of a part of capital. Such reforms as the Interstate Commerce Commission, regulation of railroads, Federal Income Tax, the direct election of senators,

[illegible]

[illegible]

[illegible]

[illegible]

and woman suffrage are all ideas which were bitterly assailed by the leading parties at first, but were later accepted by them and incorporated into law.

Nevertheless, it must be recognized that the American public has, to some extent, accepted myths instead of facts about its government. Such expressions as "The equality of all citizens before the law," "That government is best which governs least," "Political parties are groups of voters who think alike and have a common program," "Government rests upon the consent of the governed," - all of these are of somewhat questionable validity. Under the "laissez-faire" economy the business interests stoutly maintained that they did not want government interference (although this did not apply to such matters as the tariff, of course), but humorously enough, after the depression, all demanded interference and assistance as a right.

Again, consider the widely accepted slogan that "government rests on the consent of the governed." According to the census of 1920 there were 50,000,000 individuals of voting age. Only 26,000,000 went to the polls, and the successful candidate for the presidency received only 30 per cent of the votes of those legally qualified to cast their ballots - actually only 15 per cent of the total population. Usually the part of the total population which controls an election is less than 10 per

cent.

This is how the political mechanism works, as described by Kent.[1] The control of the primary election is more important than the final election. The lowest unit is the precinct of which there are 150,000 in America. In the average precinct only 65 votes are necessary to control the primary election, for there are usually not over 250 individuals eligible to vote belonging to any one party, and of these only 125 will actually take the trouble to vote. How does the precinct leader secure his 65 votes? Kent tells us it is as follows. From his own family and relations 5 votes; from the families of the judge of the elections and his two clerks, paid $8 to $12 a day, 15 votes; from his power to choose a polling place, for which the state usually pays $100 - he can secure 5 more. The party gives him money for runners and messengers, which can usually be counted on for 10 more votes. The large number of appointees and employees, such as street cleaners, policemen, firemen, clerks, state employees, or those who want to become any such, are good for 30 more, which gives the necessary 65. Out of 433 congressional districts in the United States, 316 have in the past been either safely Republican or safely Demo-

1. Kent, Frank, "The Great Game of Politics, 1930,passim.

cratic.[1] Moreover it is a delusion to suppose that a political overturn changes economic power; that remains where it was.

It has sometimes been thought that government stands above conflicting interests. It is assumed that in a democracy the majority vote will decide between conflicts and compel special interests to accept policies which are to the public advantage. This is more illusory than real. Government does not stand outside the conflict; it is part of it. Its officials are related to groups in society and it cannot take a strictly impartial attitude.

Another illusion is that government is always controlled by the dominant economic power and thus in reality represents the will of this economic interest. In reality the government is a partner in the conflicts between economic interest and may make a concession here to one interest group and there to another. In the end the dominant economic groups are going to win, not because they control the government but only if they control the socio-economic forces. In other words, "power is where it is," and the government usually reflects the interest of the dominant group to the extent that is necessary to keep itself in power.

1. Odegard, Peter, "The American Public Mind," p. 145.

The major conflict of our time is between capital and labor. The Roosevelt administration came into power pledged to a New Deal. The country is capitalistic and the political power cannot run production or distribution and is solemnly pledged to protect private property. On the other hand, it wishes to keep itself in power. It knows that discontent from the unemployed and badly paid workers is a dangerous threat to its continued existence; consequently it votes tremendous sums for relief and for public works. In reality the government is responding to a triangular pull from the propertied interests, from the workers and from its own desire to stay in office. This may be further complicated by a thousand other pulls, but at least no one can pretend that the government is completely above the class struggle, or solely under the domination of the most powerful economic interest.

It must be recognized that in the modern political state the chief aim of the government is to perpetuate its power, and to do this it is willing to make compromises with differing competing groups. The Roosevelt administration is a good example. The workers were given shorter hours, higher wages, and a theoretical right to bargain collectively; the employers were released from the antitrust laws and given huge sums from the public till; the farmers were told that

higher prices on farm products would soon be a reality and meanwhile a moratorium on mortgages was offered them. This is not to imply that the president did not do everything because he believed it would aid the nation.

One of the realities of the political mechanism in the United States is that politicians cannot live long without funds. In a capitalistic civilization funds can be most readily procured from capitalists. Consequently politicians need an alliance with business in order to secure funds. Business, on the other hand, needs to control, or at least exercise the veto power on the acts of legislatures. The result is a natural alliance between business interests and politicians. This alliance is further promoted by the fact that the basic natural resources are already in the hands of private interests. The geographic forces which are being exploited concentrate enormous power in the hands of vested interests.

Matthew Josephson, in his book, "The Robber Barons," describes the part played by the great capitalists in building America, and John McConaughy, in "Who Rules America?" reënforces this thesis. Captains of industry have often been the invisible government and the common people have paid the price of exploitation. There is a close relation between politics and the capitalistic system.

Woodrow Wilson, as far back as 1912, made this clear when he said:

> Suppose you go to Washington and try and get at your government. You will always find that while you are politely listened to, the men really consulted are the men who have the biggest stake - the big bankers, the big manufacturers, the big masters of commerce, the heads of railroad corporations, and of steamship corporations...... The government of the United States at present is a foster-child of the special interests.[1]

The operations of the political machines are so well known that it is hardly necessary to more than mention that both major parties had them. Tammany Hall of New York City and the first Penrose and later Vare machines of Philadelphia enjoyed equal notoriety. The first was democratic and the second republican. Most large cities had them, including Chicago, Cincinnati, Indianapolis, San Francisco, Bridgeport, Conn., and many others. If enough money was placed in the right hands nothing was impossible. Right now there is a fight on in Kansas City which has been ruled by a machine boss for years even in the face of being modern enough to have a "City Manager." Both the federal and state governments have taken a hand in the recent election and in prosecutions

1. Wilson, Woodrow, "The New Freedom," 1913, pp. 57-58

in a joint endeavor to rid the city of the political machine.

Bridgeport, Conn., sickening of machine rule about six years ago elected a mayor on an independent ticket. This man was an artisan, a roofer, but he was honest. In spite of the depression and the attending cost to feed the unemployed he was able to reduce the tax rate and when he came up four years later for re-election he went into office by a landslide. This shows what can be done when a community becomes thoroughly aroused.

It has long since become public knowledge that many large corporations contribute to both major political parties. In 1926, for instance, Samuel Insull contributed both to Frank Smith, Republican candidate for the United States Senate, and to George Brennan, the Democratic boss and candidate for the Senate. Many other instances might be cited of the dual interest of corporations in both political parties. For instance, Mr. Havemeyer of the sugar trust testified,

"In Republican states we contribute to the Republicans and in Democratic states to the Democrats, and in doubtful states we contribute to both sides."[1] Professor Odegard declares that as a result it is "invariably the party with the largest war chest that wins." Jay

1. Odegard, Peter, op. cit. p. 143

Gould frankly admitted, "I wanted the legislatures of four states, and to obtain control of them I made the legislature with my own money.[1] And it is not only in the distant past that such things have happened. For example, in the primary campaign of 1926, J. R. Grundy, president of the Pennsylvania Manufacturing Association, raised over $1,000,000 for the primary campaign of the Pepper-Fisher ticket. He frankly admitted that he expected to get favorable results later from their election.[2] Many of the large corporations have greater gross revenues and more employees than many states have, as explained by Professor C. E. Merriam in "Recent Social Trends." Dr. Walter M. W. Splawn of the Interstate Commerce Commission charges that the American Telephone and Telegraph Company is "more powerful and skilled than any State government with which it has to deal.[3] Dr. John H. Gray, a past president of the American Economic Association, in a careful study of the regulation of public utilities in the last twenty-five years, declares that the consumer has been left helpless and that there has been a "complete breakdown of public

1. Ostrogorsky, "Democracy and Organization of Political Parties," vol. 2, pp. 185-186.

2. U. S. Senate, Judiciary Committee, "Lobby Investigation," 1929, vol. 1, p. 434.

3. New York Times, April 7, 1934.

utility regulation."[1] Governor Pinchot (Pennsylvania) says:

> As a matter of cold fact, from the beginning most of them (the State Public Service Commissions) were owned, controlled and operated by and for the benefit of the public service companies. The latter bought up legislators and legislative committees, and bought up public service commissions as well.[2]

It was the privilege of the writer to vote for Governor Pinchot both times that he was elected governor and also when he was defeated for United States Senate by George Wharton Pepper, previously mentioned as having benefited by the Grundy contribution of $1,000,000 to the Pepper-Fisher campaign fund. The writer was also a resident of the State of Pennsylvania when Governor Pinchot, during his last term of office, expelled Public Commissioner Benn from office for accepting graft. And to show the stranglehold that the political machine and the public utilities had on the political and judicial situation in the above named state at that time, the unfit commissioner was restored to office by the Supreme Court of the State, which at that time had a reputation

1. Gray, John H. and Jack Levin, "The Valuation and Regulation of Public Utilities," 1933, p. 143.

2. New York Times, February 4, 1934.

for handing down decisions after consulting the political bosses.

Professor Jerome Davis tells us[1] that in Connecticut the situation is (different than that mentioned as applicable to Pennsylvania) that the late J. Henry Roraback, Republican state chairman, was president of eight public utility companies, a director in one realty company, four insurance companies, one manufacturing company, one trust company and one public utility. The fact is that since 1915 J. Henry Roraback usually controlled both houses of the general assembly, dictated to the governor and manipulated much of the state power. The last Republican governor, J. H. Trumbull, who was in office for six years, was himself an officer in several public-service corporations and sold his business to Roraback's Connecticut Light and Power Company.

These two states are not alone in such political activity; it is believed to be common to most states. Consider for a moment Delaware. Arthur Warner, in a chapter on this state - the Ward of a Feudal Family, maintains that the DuPont interests virtually own the state of Delaware.[2] In 1935 Fortune headed an article on the DuPonts by the frank admission that Delaware was "their state," "which they rule and protect." In a con-

1. Davis, Jerome, Capitalism and Its Culture, 1935, pp. 420-421

2. Warner, A, in "These United States," Greuning, ed. 1925.

fidential memorandum made public by the Senate Munitions Committee in 1935, Major K. K. V. Casey of the DuPont Company, in arguing for their selling explosives in Europe, made the astounding claim that they represented the country more nearly than did Congress. He wrote:

> Congress is too short-sighted to see the necessity for appropriating funds to keep private manufacturers of military materials in business. The Army and Navy would spend money for this purpose if they could get it, and because they cannot they are doing all they possibly can do, and that is to help us make sales to other nations. This is our country and not the country of Congress.[1]

How some of the big utility companies operate in local situations is to place town officials in the pay of private companies. Certain members of town boards in the territory served by the Long Island Lighting Company received more than $33,000.[2] All of this presumably costs the people (users) in excess rates. Governor Pinchot estimates this overcharge throughout the United States as at least $500,000,000 annually.[3] In

1. Davis, Jerome, "Capitalism and Its Culture, 1935, p. 421.

2. New York Times, April 20, 1934.

3. Ibid, February 4, 1934.

New Zealand the average rate per kilowat hour is .85 of a cent. New Zealand sells for $0.34 what would cost $3.48 in New Jersey.[1] There probably is some legitimate difference in cost of production and distribution between New Zealand and New Jersey, but there certainly is not 924 per cent difference, if political graft be omitted.

One illustration will show the method used in extracting graft through the leasing of city piers. In New York City the United States Lines were forced to pay $250,000 to W. Barnard Vanse, a judge of Brooklyn, when it leased three city piers. Vanse was later sent to the federal penitentiary for using the mails to defraud.[2]

E. C. Compton, Republican nominee for borough president of Manhattan, in 1931, retained George W. Olvany, leader of Tammany Hall, to facilitate the sale of a pier to the city for $250,000.[3] The North German Lloyd Line was blocked from securing a pier until it had paid $50,000 to W. H. Hicken, president of the National Democratic Club. He apparently passed on $45,000 to others. The politicians also set up dummy corporations. The city leased piers to these corporations, which leased

1. New Republic, February 7, 1934.

2. Lynch, Dennis T., "Criminals and Politicians," Macmillan, 1931, pp. 148-152.

3. Lynch, Dennis T., "Criminals and Politicians,"1931, pp. 148-152.

them in turn to the steamship companies. An example of this and the price paid for the lease is as follows: the dummy corporation paid the city $53.47 per day for the lease of a pier: the steamship company in turn paid $500. per day to the dummy corporation.[1]

It is no wonder that Borough President George U. Harvey of Queens told a convention at Saranac Lake in October, 1930, that "Graft is universal."[2]

Judge Seabury reached the conclusion that nothing short of municipal ownership will remedy the evils which the two big monopolies, the Consolidated Gas Company and the New York Edison Company have thrust upon the city. In speaking of them, he said:

> Their record has been one of extortion. Their privileges were conceived in fraud and political corruption and throughout their existence they have been a constant source of temptation to corrupt officials. Both of these corporations exist in violation of the law and both enjoy absolute monopolies in the necessaries of life. Both have violated the law of the State, both have made false reports to avoid the payment of their just taxes and both have entered into

1. Northrup, W. B., "The Insolence of Office," 1932, pp. 183-192.

2. Dobyns, Fletcher, "Underworld of American Politics," p. 232.

close and friendly alliance with public officers whose duty required that they should protect the public from extortion.[1]

The cases cited could be multiplied many fold without serving any further purpose here. It is thought fitting to close the discussion of this particular subject with a quotation from W. J. Shepard.

"In spite of universal and equal suffrage, of representative legislative bodies, even of the initiative and referendum, it has become more and more evident that effective power is concentrated in the hands of relatively small but wealthy groups. The alliance between government and big business; the significance of the boss who performs the very profitable role of political broker; the part played by the political machine; the extensive use of money in elections; the power and methods of propaganda; the place the lobby occupies in the actual work of government, have come to be better understood.[2]

Unfortunately only those who have had the opportunity and were inclined to study the situation understand.

1. Chambers, Walter, "Samuel Seabury, a Challenge," Century Company, 1932.

2. Shepard, W. J., Government, in "Encyclopedia of the Social Sciences," vol. 7. p. 14.

The realities of the subsidized state have not been understood by the average citizen, who has been under the illusion that he was living in a genuine political democracy instead of a state subsidized by capitalistic interests.

PART V

How the National Income Should be Distributed

Much space has been devoted previously to the fact, cause and consequence of economic inequality which points directly to an erroneous distribution of income. How then should the national income be distributed? Some of our people would rather "things remain as they are." Naturally those who have more of the world's goods than they can ever consume will say, why change. Many others who are lazy minded and are satisfied would rather not bother about it. The one who needs the change most of all has not the least idea that such a thing is, or could be possible, and there are those who accept inequality as sort of an appointment by God which should not be questioned. Last and least in number, by far, are those who know that inequality exists, believes, first, that there is no real reason for its continuance in America on such an exaggerated scale and, secondly, that it can be eventually reduced to the point that every person can really live and enjoy the comforts of life and some of its luxuries and that some immediate steps should be taken in that direction. The writer chooses to place himself with the latter group and maintains that in order to do this he does not have to be classed as a communist, or even a socialist. Such a condition can and probably will be brought about through

government regulation of big business.

Many proposals have been made for the distribution of income; too many to consider here, however, some of the proposals will be considered. Let it first be said that if anyone is idle someone else must be working for both, else the idle person would not eat. That is why the Apostle Paul said, "If a man will not work, neither shall he eat."

1. Distribution according to need.

The first plan to be examined is that of giving to each according to his needs. Who then shall decide what, or how much, one needs? Will the banker's and the bank clerk's needs be alike? Will the needs of the bachelor and father of a family be alike? Will the professor and the student have the same needs? Will the professional man and the laborer have like needs? How about the criminal lawyer and his client? And last, but not least, how much does the play-boy and the man-about-town need, and who shall decide for the movie actor and actress? Need is a term often difficult for the courts to decide when awarding alimony, or determining support of the unfortunate child. Again when minors have contracted for the purchase of goods or other commodities the courts often find it difficult to decide

whether the contract is binding,which decision is based on whether the article purchased was a necessity. The courts have held that what is necessary for one, may not be for another because of each occupying a different station in life. Hence, a watch might be considered necessary for one young man and not for another. Professor John J. Sullivan, in "Pennsylvania Business Law," states it thus:

> "No complete list of necessaries can be made which will apply to all minors. Questions of wealth, social position, training, health, and in general all the surrounding circumstances help to determine what may be regarded as necessary for any particular minor. Food, clothing, shelter and a reasonable "(?)" amount of education are needed by all; likewise, medicine, nursing and medical attention during periods of illness. A minor who is learning to paint portraits needs instruction, books, paints and a variety of articles required to carry on his studies. If he has a very large estate, a reasonable amount of foreign travel may be a 'necessary', especially if it is recommended either to help forward his education or to improve his health. A farmer's son who lives in a lonely part of the country may be deemed to need a horse, although the son of a

city man with the same pecuniary prospects would usually be in no such need."[1]

If "infants", as minors are referred to in legal parlance, have such a variety of needs who could decide the needs of an adult? Apparently this method of distribution would not work.

2. <u>Distribution according to productivity</u>.

This plan seems fair, but when we try to put it into practice we discover, first, that it is quite impossible to find how much each person has produced, and, second, that much of the world's work is neither producing material things nor altering the things that Nature produces, but doing services of one sort or another.

When a farmer and his laborers sow and reap a field of wheat no one can say how much of the wheat each of them has grown. When a machine in a factory turns out products in the modern way by mass production who can distribute the credit for the production to the several workers? How much should the inventor of the machine get and the engineers who built the machine, and the capitalists who own the machine? This would have been a simple proposition for Robinson Crusoe on his desert island, but for Henry Ford in his automobile

1. Sullivan, "Pennsylvania Business Law", Fifth Edition, 1919, pp. 81-82

factory in Detroit, would present quite a different problem.

What can be done is to pay every person according to the time he or she works. Time is something that can be measured in figures. It is quite easy to pay a worker twice as much for two hours work as for one. There are people who will work for fifty cents an hour, others who will work for seventy-five cents an hour, but some will demand a dollar or more per hour. These prices depend on how many competitors there are looking for work, and the demand for commodities which they will produce, assuming of course, availability of capital. A laborer will be paid forty cents per hour, a policeman five dollars per day, a first class mechanic a dollar an hour. Some dentists charge one price and others another. One doctor charges a hundred dollars for an appendicitis operation for which another charges a thousand dollars. A movie actor in some cases receives many thousands of dollars annually for services, and a brother reared under the same roof and fed at the same table may have a hard time "making both ends meet." This is called setting the price of a worker's time, or rather, letting it set itself by the medium of supply and demand.

Unfortunately supply and demand may produce undesirable results. A division in which one woman gets six dollars per week as a seamstress, and another one gets a thousand dollars a night as an opera singer

has no moral sense in it; it is just something that happens, and that ought not to happen. A child with an interesting face and pretty ways, and some talent for acting, may by working for the films, receive a hundred times as much as its father can at an ordinary trade. What is worse, a pretty girl can earn by vice far more than her plain sister can earn as an honest wife and mother.

Besides, it is not so easy to measure the time spent on a piece of work as it seems at first. Paying a laborer twice as much for two hours work as for one is as simple as twice one are two; but when one has to divide between an unskilled laborer and a doctor, he finds that he cannot tell how much time to allow for. The laborer is doing what any ablebodied man can do without long study or apprenticeship. The doctor, on the other hand, has to spend many years in school and a year or more at interneship in a hospital before he is qualified to serve you in accordance with state law. He claims that years of training are behind every minute of his attendance at your bedside. A skilled workman may claim four years apprenticeship and more years of experience are behind every stroke of his hammer. The opera singer has had to spend a long time learning her parts, even when, as sometimes happens, she has never learned to sing. Everybody acknowledges that this

makes a difference, but no one can measure exactly what the difference is, neither in time nor money.

The same difficulty arises in attempting to compare the value of the work of a stupid person with that of a clever one. You may think that the work of the clever person is worth more; but when you are asked how much more in dollars and cents you have to give up and fall back on supply and demand, confessing that the difference cannot be measured in money.

The question might be raised as to how persons could be paid on a production basis who produce nothing tangible. The brickmaker produces brick, but what does the doctor, lawyer, accountant, member of Congress, salesman, domestic servant, postman or policeman produce? True, it is the brickmaker makes the brick, but some one must count, store, sell, ship and charge for them, and later collect for them and meanwhile someone must furnish capital for payroll and other manufacturing costs or the brickmaker would have no job.

The production method of distribution of the national income, in face of the above mentioned difficulties seems, not only inefficient but impossible.

3. Distribution according to the wishes of the oligarchy.

Another plan is to take one person in every so many, say ten, and make him rich without working, by making the other nine work hard and long every day,

giving them only enough of what they make to keep them alive and enable them to bring up families to continue their slavery when they grow old and die. This is roughly what happens now, as one-tenth, or less, of the American people own nine-tenths of all the property, while most of the other nine-tenths have no property and subsist from week to week on wages barely sufficient to support them in a very poor way or on the welfare. The advantage claimed for this plan is that it provides us with a gentry; that is, with a class of rich people able to cultivate themselves by an expensive education; so that they become qualified to govern the country and make and maintain its laws, as in England; to organize and officer the army for national defense; to patronize and keep alive learning, science, art, literature, philosophy, religion, great corporations, and all the other institutions that distinguish great civilizations from mere groups of villages; to raise magnificent buildings, dress splendidly, impose awe on the unruly, and set an example of good manners and fine living. Most important of all, as men of business think, by giving them much more than they need spend, we enable them to save those great sums of spare money that are called capital, and are spent in making railways, mines, factories full of machinery, and all the other contrivances by which, together with labor, wealth is

[illegible]

produced in great quantities.

This plan which is called Oligarchy, is the old English plan of dividing us into gentry, living by property, and common people, living by work; the plan of the few rich and the many poor. Though we make this sort of arrangement at present because we are forced to, and indeed, mostly without knowing that we are making it, yet it is conceivable that if we understood what we were doing and were free to do it or not, as we thought best, we might still do it for the sake of having a gentry to keep up finer things in the world than a miserable crowd all equally poor, and all tied to primitive manual labor, and again we might not.

But the abuses that arise from this plan are so terrible that the world is becoming set against it. If we decide to go on with it, the first step is to settle who is to be the tenth person. How is that to be decided? True, we could begin by drawing lots, and after that the gentry could intermarry and be succeeded by their first-borns. The trouble, however, is that when the gentry were established we should have no guarantee that they would do any of the things we intended them to do and paid them to do. With the best of intention the gentry govern the country very badly, more so in the past than at present, because they are so far removed from the common people that they do not understand their needs and care less than they understand.

They use their power to make themselves still richer by forcing the common people to work still harder and accept less, through mass production. They spend enormous sums on sport and entertainment, gluttony and ostentation, and very little comparatively on science, art and learning. They produce poverty on a vast scale by withdrawing labor from production to waste it in superfluous menial service. They corrupt the teaching in the universities and other schools to glorify themselves and hide their misdeeds. They do the same with the church. They try to keep the common people poor, ignorant and servile so as to make themselves more indispensable.

We must therefore face the fact that in a civilization like ours, where most of the population lives in cities; where railways, motor cars, postal service, telegraphs, telephones, daily newspapers and the radio have brought city ways and city culture into the country; and where even the smallest village has its parish meeting and its policeman, the old reasons for making a few people very rich have passed away. The plan no longer works even on the English manor, nor with the Highland clan of Scotland.

Still, there is one reason claimed by some, for maintaining a class of excessively rich people at the expense of the rest, and the business man considers it the best reason of all. The reason stated is that it provides capital by giving some people more money

than they can easily spend, so that they can save money, thereby creating capital without any privation. The argument is that if income were more equally distributed, we should all have so little that we would spend all our incomes, and nothing would be saved to make machinery and build factories and construct railways and dig mines, etc. Now it is certainly necessary to high civilization that these savings should be made, but it would be hard to imagine a more wasteful way of bringing it about.

To begin with, it is highly important that there should be no saving until there has been sufficient spending. A nation which makes steam engines before all of its little children have enough milk to drink is making a fool's choice. Yet this is just what we do by this plan of making a few rich and the masses poor. Again, even if we put the steam engine before the milk, our plan gives us no security that we shall get the steam engine, or if we get it that it shall be set up in our country. Bernard Shaw says in "The Intelligent Woman's Guide to Socialism and Capitalism," "A great deal of the money that was given to the country gentlemen of England on the chance of their encouraging art and science was spent by them on cock-fighting and horse-racing."[1] Much of the money that goes to the oligarchs, too much by far, is spent by them in self-

1. Shaw, Bernard, "The Intelligent Woman's Guide to Socialism and Capitalism," 1928, p. 34

indulgence. It may be truthfully said of the very rich, as a class, that they do not begin to save until they can spend no more and that they are continually inventing new and expensive extravagances that would have been impossible a hundred years ago. When their income exceeds their extravagances so far that they must use it as capital, or throw it away, there is nothing to prevent them from investing it abroad, and then expecting the government to keep a detachment of marines at the location to protect it. Millions of dollars are sent abroad every year in this way, and we complain of the competition of foreigners while our own capitalists provide them, at our expense, with the very machinery with which they are taking business away from us. A good, very recent example of this is the case of the United Shoe Machinery Company furnishing Czechoslovakia with shoe machinery with which to make shoes for competition in the American markets.

The plan of depending on oligarchy for our national capital is not only wasteful on the face of it, but dangerous with a danger that increases with every political development in the world. The only plea left for it is that there is no other way of doing it. The government can, and to a considerable extent does, check personal expenditures, through the income tax. It can also nationalize banking as we

shall some day realize and this will leave the oligarchy without its sole economic excuse.

4. Laissez-faire (hands off)

And now what about leaving things just as they are? That is just what most people vote for doing. Even when they do not like what they are accustomed to, they dread change, lest it should make matters worse. They are what is referred to as conservative, though it is only fair to add that no statesman in his right mind ever pretends (except perhaps at election times, when no one ever tells the truth) that one can conserve things by merely letting them alone. The real difficulty is that things will not stay as they are, no matter how careful one is to not meddle with them. The world revolves and rotates, things move either up or down, improve or get worse. The truth is that things change much faster and more dangerously when let alone than when carefully looked after.

When this policy was first advocated by Legendre, a merchant, prior to 1680 and later adopted by the French physiocratic economists, life was not as complicated as now. The greatest majority of the population were peasants and other farm dwellers. Even in Adam Smith's time, he thought business would take care of itself because he could not visualize the mammoth corporation with assets running into billions of dollars about which Berle and Means warn us. Smith's

economy was one of small things, small times, small capital, small business, the sole proprietorship or partnership. Such institutions as the American Telephone and Telegraph Company, the Pennsylvania Railroad Company, the United States Steel Corporation, or the Metropolitan Life Insurance Company was an impossibility. The laissez-faire policy of that day and this is an entirely different matter. Within the last hundred and fifty years the most astounding changes have taken place with this very business we are dealing with, namely, production and distribution of the national income, just because what was everybody's business was nobody's business, and it was let run wild. The introduction of machinery driven by steam, and later on of electric power distributed from house to house, like water and gas, and the invention and manufacture of engines that not only draw trains along the ground and ships over and under the sea, but carry us and our goods flying through the air, has increased our power to produce wealth and get through our work easily and quickly to such an extent that there is no longer any need for any of us to be poor.

This is a new state of things; a change that has come upon us when we thought we were leaving things just as they were. And the consequence of our not attending to it and guiding and arranging it for the good of the country is that it has actually left the

poor much worse off than they were when there was no machinery at all and people had to be more careful of cents than they are today of dollars. Meanwhile the rich have become rich out of all reason, and the people who should be employed in making bread for the hungry and clothes for the naked, or building houses for the homeless, are wasting their labor in providing service and luxuries for idle rich people who are not, in the old sense of the word, either gentle or noble, and whose idleness, frivolity and extravagance set a most corrupting moral example.

Have you noticed, by the way, that we no longer speak of letting things alone, in the old-fashioned way? Using the common vernacular we speak of "letting them slide", and that is exactly what we do when we do nothing about them. Therefore one must rule out immediately the notion of leaving things as they are in the expectation that they will stay where they are. They won't. All that we can do in that regard is to sit idly by and wonder what will happen next, and this is not like sitting by a stream waiting for the water to go by. It is like sitting in an automobile with a drunken driver at the wheel. You can excuse it by saying, "What else can I do?" but your impotence will not avert a crash. People in that predicament must act, first, to get control of the wheel, and secondly, to keep the car right side up and avoid hurting someone,

or being hurt.

The policy of letting things alone, in the practical sense that the government should never interfere with business, or go into business itself, is called laissez-faire by economists and politicians. It has broken down so completely in practice that it is now discredited, but it was considered the thing to do a hundred years ago and is still advocated by men of business and their bankers who naturally would like to be allowed to make money as they please without regard to interests of the public.

5. <u>The case for equality</u>.

In consideration of each of the previously mentioned plans an effort was being made to find an equitable solution to the distribution of money and each broke down at one point or another. It was found that no relation could be established between money and personal merit, achievement, dignity or individual quality. The relation between money and work or character could not be established, and after giving each up as a bad job and thinking perhaps if things were just let alone they would adjust themselves, it was found that they would not stay "put" or as they were, or improve.

No plan that does not do away with poverty will work satisfactorily. When Christ said, "The poor you have with you always," society was not as it is today.

There was a sharp line of demarcation between the rich and poor then that has been more or less obliterated since.

Such poverty as we have today in all our large cities degrades the poor, and infects with its degradation, the whole neighborhood in which they live. And whatever can degrade a neighborhood can degrade a city, state, country, continent and the whole world. Its bad effects cannot be escaped by the rich. When poverty produces outbreaks of virulent disease, as it usually does, sooner or later, the rich catch the disease and see their children die of it. When it produces crime and violence the rich go in fear of both and are put to much expense to protect their persons and property. When it produces bad manners and bad language the children of the rich pick them up no matter how carefully they are secluded, and such seclusion as they get does them more harm than good. If poor, but pretty young women find, as they do, that they can make more money by vice than they can by honest work, they will poison the blood of rich young men who, when they marry, will infect their wives and children, and cause them all sorts of bodily (not to mention the mental) troubles, sometimes ending in disfigurement, blindness and death and always doing them more or less harm. The old notion that people can "keep to themselves,"

and not be touched by what is happening in their neighborhoods, or even to the people five hundred miles away, is a most dangerous mistake. The saying that we are members one of another is not a mere pious formula to be repeated in church, without any meaning. It is a literal truth, for though the rich end of the town can avoid living with the poor end it cannot avoid dying with it when the plague comes. People will be able to keep themselves to themselves as much as they please when they have made an end of poverty, but until then they will not be able to shut out the sights and sounds and smells of poverty from their daily walks, nor to feel sure from day to day that its most violent and fatal evils will not reach them through their strongest police guards.

Besides, as long as poverty remains possible we shall never be sure that it will not overtake us sometime. Many people before the crash of 1929 had plenty of money but found themselves in the "bread line" so to speak,shortly thereafter. If we dig a pit for others we may fall in it ourselves; if we leave a precipice unfenced our children may fall over it when they are playing.

It is easy to say of a lazy man, "Oh, let him be poor; it serves him right for being lazy; it will teach him a lesson." In saying so we are ourselves too lazy to think a little before we lay down the law. We

cannot afford to have poor people anyhow, whether they be lazy or busy, drunken or sober, virtuous or vicious, thrifty or careless, wise or foolish. If they deserve to suffer let them be made to suffer in some other way, for mere poverty will not hurt them half as much as it may hurt their innocent neighbors. It is a public nuisance as well as a private misfortune. Its toleration is a national crime. We must therefore take it as an indispensable condition of a sound distribution of wealth that everyone must have a share sufficient to keep him or her from poverty. But we must get along to the positive reasons for a more equitable distribution of income.

First, equal distribution among certain classes is not only a possible plan but one which has been tested by long experience. The great bulk of the daily work of the civilized world is done, and always has been done, by bodies of persons receiving equal pay whether they are tall or short, fair or dark, quick or slow, young or getting along in years, teetotallers or beer drinkers, Protestants or Catholics, married or single, pious or worldly, in short without the slightest regard to the differences that makes one person unlike another. In every trade there is a standard wage, in every public service there is a standard pay, and in every profession the fees are fixed with a view to enable the man who follows

that profession to live according to a certain standard of respectability, which is the same for the whole profession. The pay of the policeman, soldier and postman, the wages of the laborer, carpenter and mason, the salary of the judge and the member of Congress may differ, but all the soldiers get the same, all the judges of the same court get the same, and if you ask the doctor why his fee is what it is instead of being twice as much or half as much, he can give you no better reason than that what he is asking is what all other doctors ask, and that they ask it because they find they cannot keep up their positions on less.

"You may take it with the utmost confidence as settled by practical experience," says Shaw, "that if we could succeed in distributing income equally to all inhabitants of the country, there would be no more tendency on their part to divide into rich and poor than there is at present for postmen to divide into beggars and millionaires. . . . Equal distribution is then quite possible and practicable, not only momentarily, but permently. It is also simple and intelligible. It gets rid of all squabbling as to how much each person should have. It is already in operation and familiar over great masses of human beings. And it has the tremendous advantage of securing promotion by merit for the most capable."[1]

1. Shaw, Bernard, "The Intelligent Woman's Guide to Socialism,and Capitalism," 1928, pp. 69-70

While the present writer does not share Mr. Shaw's views completely, he believe that there is much food for thought in what he says. It certainly is the most extreme from our present system and could not be effected immediately if desirable. Nothing short of a revolution could bring about such a great change and a revolution is not wanted by any but the Communists. However, only where there is much more equality of income can the distinction of merit stand out. Reputations, dignities, ranks and even titles do more harm than good if they can be bought with money. Under our present system, between two persons of unequal wealth or income all other distinctions are thrown into the background. Many men in America have made enviable reputations for themselves, and much money, because they could hire men with ability to make money for them which they could not have done without money, but on the other hand, the men so hired, plus the money, could have made a more brilliant success because they would not have always been hampered by the boss.

Between persons of equal income, or approximately so, there is no social distinction except the distinction of merit. Money is nothing, character, conduct and capacity are everything. If the million dollar salaries, bonuses, and other income from any source whatever were taxed down to say $25,000, and

the wages and salaries of the masses were raised to a comfortable living basis, everybody would find his or her own natural level. There would be great people, ordinary people and little people; but the great would always be those who had done great things, and never the "nitwits" whose mothers had spoiled them and whose fathers had left them a hundred thousand dollars a year; and the little would be persons of small minds, or mean characters, or both, and not poor persons who never had a chance. That is why the "nitwits" are always in favor of inequality of income in the extreme as we now have it. It is their only chance of eminence. It is not meant here that all who favor inequality of income in the extreme are "nitwits", but many are.

The objection sometimes raised to equality of income is that it would destroy incentive to work harder. Why should one work harder? If he is living comfortably and does not have to worry about rearing a family or old age, why should he work harder? The answer is that working harder than is presently necessary is done for two reasons, first, to save in order to prepare for old age, or childrens' education, etc., and secondly, to be able to place one's self in a more recognized position in life. Many poor persons slave, literally, all their lives. During their early lives it is the desire to be able to hold a recognized

position and later, (after forty) when industry is through with people, the effort is to live respectably and never be a burden on anyone.

If the national income were more equally distributed these worries would not burden down some of our best minds. They would be free to think, act and live greater and more useful lives to themselves and society.

On the other hand, there are people who never work and many others who never would if they could avoid it by having money enough to make it unnecessary. There should be vagrancy laws that would compel every able-bodied person between reasonable limits of ages to perform a set minimum of work throughout the year. No one has a right to take any part out of the national income who does not contribute to it. The Apostle Paul stated it fairly enough when he said, "If a man will not work, neither shall he eat." This should be drafted into a law of the land. But some would rather do nothing and be poor; the vagrancy laws would take care of this class.

No external incentive is needed to make first-rate workers do the best work they can, and people seldom refuse higher positions which they feel capable of handling. When they do, it is because the higher position is so much worse paid or so unsuitable to

their social position that they cannot afford to accept it. A typical case is that of a non-commissioned officer in the Army or Navy refusing a commission. If the quarter-master-sergeant's or the chief petty officer's pay and expenses come to no more than those of the officer, and both men were of the same class, no inducement in the way of extra money would be needed to make any soldier or sailor accept promotion to the highest rank in which he felt he could do himself credit. When he refuses, as he sometimes does, (the writer did this very thing during the World War while holding the rating of a chief petty officer), it is because he would be poorer, or less at home in the higher rank, or both.

But what about the dirty work? We are so accustomed to see dirty work done by dirty and poorly paid people that we have come to think that it is disgraceful to do it, and that unless a dirty and disgraced class existed it would not be done at all. This is nonsense. Some of the dirtiest work in the world is done by surgeons and physicians with enviable reputations; men who are highly educated, highly paid and move in the best society. The nurses who assist them are often their equal in general education, yet no one would think of paying nurses less, or respecting them less, than typists, file-clerks or librarians whose work is much cleaner. Laboratory work and anatomical work, which involves the dissecting of dead bodies, and analyzing the secretions and excretions

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of live ones, is sometimes revoltingly dirty from the view-point of the office worker, yet it has to be done by men and women of the professional class.

The truth of the matter is that it is not really the work that is objected to so much as it is its association with poverty and degradation. Thus the gentleman of leisure does not object to driving his car, in fact he does it often with the chauffeur sitting beside him, but he would object to wearing the livery of his chauffeur. The house wife will do her own housework, but would refuse to wear the cap and apron of a maid. Even some maids object to this. It is the emblem of inferiority that people dislike, not the work that goes with the emblem.

Still, when we have given up the nonsense about dirty work, the fact remains that though all useful work may be honorable, all useful work is most certainly not equally agreeable or equally exhausting. Boys do not usually aspire to be sewermen, or girls ragpickers. Much can be done to make unpopular occupations more agreeable, and some of them can be abolished entirely and would have been long ago if there had been no class of poor and rough people to engage in them.

Fortunately there is a way of equalizing the attraction of different occupations. This can be done by giving more leisure to those engaged in such occu-

pations. After obtaining a comfortable living men want leisure. Give more leisure in these unwanted jobs and they will be sought for more and less despised. The position of housemaid has been made much more attractive in recent years by giving more time off, and more privileges around the house. There was a time when maids worked from before breakfast until after dinner and then went to bed six days out of seven and were lucky to have an hour or so off to visit home on Sunday afternoon. Then maids became scarce, and some more inducements were necessary. Now a maid has Sunday afternoon, a full day during the week, the use, many times, of the living room in which to entertain and other privileges. After a living wage the worker wants some consideration otherwise. Give it to him and no necessary job will be too disgusting.

PART VI

Methods of Creating Greater Economic Equality

In view of the fact that there is such great economic inequality, what can be done to improve conditions? Here again we face a subject that would take a whole volume, if not more, to treat adequately. We can only hope, at this time, to suggest several methods, and indicate briefly some of the things that might be done toward advancement. A start has already been made in some directions; let us hope that the good work continues to ultimate fruition.

1. State Control of Wages.

Much legislation has been passed by the various states in an effort to control wages to some extent. Particularly has "sweat" wages been the bone of many contentions. Wages, hours, and extra pay for overtime work have been made the subject of state statutes, only later in many cases, to be decided unconstitutional. Some of the undefeated legislation has been regarding maximum work and minimum pay for women and children, which has benefited men indirectly, however, this legislation has been more social than economic.

In Adkins v. Children's Hospital, 261 U.S. 525, 1923, a minimum wage law for women, in the District of

Columbia, was held unconstitutional by the United States Supreme Court, as an interference with the liberty and property rights of the parties to a labor contract. The Court held that if Congress could constitutionally fix a minimum wage in spite of the guarantees of liberty and property in the Fifth Amendment, it could also fix a maximum wage. Either would be a substantial violation of individual freedom as protected by the Constitution. Answering the argument that the law was passed in the interest of social welfare, the Court said, ". . . Surely the good of society as a whole cannot be better served than by the preservation against arbitrary restraint of the liberties of its constituent members." "However, an able dissenting opinion of the Chief Justice pointed out that the purposes of the law were the protection of the health, morals and well-being of minors and women and that the Act lay directly within the path of those previous decisions which had upheld social legislation."[1]

In the case of Bunting v. Oregon 243 U.S. 426 (1917) the State of Oregon prohibited the employment of persons in certain industrial establishments for more than ten hours a day except in an emergency. The law allowed three hours overtime employment per day provided the worker was paid time and a half time. Bunting was convicted of employing a workman in a flour mill

1. Young, James T., "The New American Government and Its Work," 1934, p. 180

thirteen hours in one day without paying the prescribed rate for overtime. He was convicted for violation of the Act and appealed to the United States Supreme Court on the ground that the statute took his property without due process by prescribing an overtime payment. Such a law, it was contended, was a price fixing arrangement in violation of the liberty of property guaranteed by the Fourteenth Amendment. The Court viewed the statute as a reasonable exercise of the state police power for the protection of the workers' health from long hours. The law was reasonable because the ten hour day was customary in Oregon industries.[1]

Many other cases could be cited, but suffice it to say here, that the recent tendency, on the part of the United States Supreme Court, is for a more liberal interpretation of the Constitution, particularly so in declaring in favor of the Wagner Labor Act, which forces industry to recognize the right of employees regarding collective bargaining.

Burns discusses three bases for wage consideration, namely, "living wage," "fair wage," and "the wage the trade can bear." She says the "living wage" is enough to enable the worker to live and bring up a family with some small degree of comfort, and she says further that this is the most widely spread wage-fixing principle.

1. Rohlfing, Carter and West, "Business and Government", 1935, pp. 37-38

Wages in any occupation are "fair" she says when, allowances being made for differences in the steadiness of the demand for labor in different industries, they are about on a level with the payments made for tasks in other trades which are of equal difficulty and disagreeableness, and which require equally rare natural abilities and an equally expensive training. The "wages a trade can bear" she says is a principle which lays special stress upon the ability of employers to pay a particular wage.[1]

"Whatever the principles laid down in the Acts, in practice the states have adhered to one or more of the three bases, but of the three the 'living wage' is undoubtedly the most popular."[1]

Mrs. Burns states further that the answer to the question whether there is a general solution to the wage problem must be negative. She thinks that everything depends upon the objects it is hoped to attain and the causes of evil it is hoped to remedy. She says that there are some conditions that no wage principle could influence.[2]

State control may not be the whole answer, but it is believed that we can go a long way toward creating less economic inequality by legislation. Advances are being made now by a more liberal interpretation of the Constitution by the United States Supreme Court. The states are sure to follow this favorable action

1. Burns, E. M. "Wages and the State," 1926, p. 390
2. Ibid, 391

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with more regulatory legislation and while this may not do the whole job every wedge helps to split the uncontrolled capitalistic log and it must be done gradually as the public become better educated to conditions and possible remedies.

(b) Problems of the Future.

The problem for the future is to educate the masses regarding what can be done for their betterment. The masses are not satisfied with their lot, but they do not know that there is anything better possible. When they realize that there is something better and that it can be had only through their vote as it is used and used properly, then and only then can the best be realized. And this is not utopia. It is the working together of the majority for the benefit of the whole. If state control is the answer it will take the vote to make it possible. If government control of finance and industry is best, again it will take the vote of an educated population to make it possible. If this ultimately means socialism, which I do not believe, at least for many years to come, let it come. Our Constitution is supposed to be "by the people and for the people," not by the people, for a part of the people. United we stand, divided we fall; and that means economically as much as otherwise.

2. <u>By Unionization of Labor and Collective Bargaining</u>.

(a) <u>The Theory of Collective Bargaining</u>.

The nation under the New Deal stresses collective action. The N.R.A. permitted and urged business men to come together and discuss fair practices concerning prices, labor conditions and other items of mutual interest in manufacturing and distribution. Section 7 (a) sought to safeguard the right of employees to collective bargaining, and as a result, associations, codes of competition, price maintenance schemes, labor union and employee representation plans developed like mushrooms. But the N.R.A. is no more, having been declared unconstitutional by the United States Supreme Court, although the Wagner Labor Act was upheld.

What is collective bargaining? Collective bargaining is a policy whereby employees can bargain collectively, not individually, with the employer. In bargaining individually the employee is at a decided disadvantage. His job is at stake in the first place, and his job means food, shelter and all that goes with it for the family. He is afraid, and rightly so, to say all that he thinks in regard to fairness and justice to himself. He knows that under ordinary conditions his position can be filled by one whose application is already on file. The result is he takes much that is undesirable and says little or nothing. Again, he is

totally ignorant regarding labor conditions in general, or in his particular line of work, while his employer is well informed through his trade associations, chamber of commerce, and business clubs.

Three stages, or shifts of emphasis, are discernable in the evolution of the union theory of collective bargaining.

Its first form emphasized the need of equality in bargaining power, between employer and employee, for reasons stated above. The second stage brought the union officials to a realization of the need for control due to industrial and market organization and the pressure of market competition. They realized that the average employer, however appreciative of the value of good working conditions, and the needs of his workers, is sometimes under the necessity of reducing costs because of the chiseling practices of his less socially minded competitors. Competition frequently prevents employers from doing what they would like to do in labor matters. Hence,nowadays we hear relatively less of balancing bargaining power, and more of the need of standardization and control, of placing all firms in a market on pretty much the same plane of labor costs, and of having competitive success depend largely upon managerial ability, sound organization and the like.[1] Finally, under collective agreements, changes to the disadvantages of the workers

1. Millis, Harry A., "The Union in Industry," American Economic Review, March 1935, pp. 2-3

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cannot readily be made without due notice and consent; terms of employment and perhaps tenure of job cease to be "at will". Thirdly, wages must be increased in proportion to increases in industrial efficiency in order to balance consumption and production and to maintain the necessary market outlet for industrial products.

There is, therefore, a tremendous difference between the results of unrestrained individual bargaining and the results to be obtained through concerted action. As John Mitchell said, "Trade unionism thus recognizes that the destruction of the workman is the individual bargain, and the salvation of the working man is the joint, united, collective bargain."[1]

It is contended by some economists, as well as business men that a wage increase, increases total cost and is passed on to the consumer. This is certainly not always true. Competition governs the market price, which means that sometimes the increase, if it does increase total costs, must come out of profits. If this is true then the business may be forced ultimately to liquidate; which is as it should be, if it cannot pay men sufficient wages and stay in business. This indicates that something is wrong with management. But, on the other hand there are cases on record to prove

1. Mitchell, John, "Organized Labor," 1903, p.4, American Book and Bible House, Philadelphia

that an increase in wages may increase efficiency in management, cut waste, etc., and result in a benefaction for all concerned. Millis cites a case in Chicago where a clothing manufacturing concern in 1919 after increasing employees' wages and coöperating with the union generally, obtained an increase in output per worker of 60 per cent. He states as a conclusion that, "Not infrequently the higher wages are earned, if labor cost is the test."[1]

Hutt says the matters here referred to, "are not adequately determined by the market process - hours of work and conditions of work are things that ultimately concern workmen and are best decided collectively."[2]

Thus far the question has been considered from the standpoint of the skilled mechanics who constitute the majority of the labor unions. The fact remains that farm help, domestics, common laborers, office workers, professional people, and foremen and superintendents are not unionized which means that considerably less than half, probably not more than 10 per cent of the working population is. Whether or not it is possible, or advisable, to unionize such is questionable, but for those for whom it is possible it will benefit, and the others will be indirectly benefited, by shifts in labor and by other automatic devices, as was proved during

1. Millis, Harry A., "Union in Industry," American Economic Review, March 1935, p. 8

2. Hutt, William Harold, "The Theory of Collective Bargaining," 1930, p. 107

and just after the World War when stenographers were found waiting on tables and university graduates were found working at the building trades in various jobs. Any change that benefits part of the masses benefits the whole unless done at the expense of those not directly benefited. This we believe to not be the case in collective bargaining of union members. This question, however, is to be considered under the next heading.

(b) Raising money wages as a road to progress.

The raising of money wages will not do the worker any good if prices of commodities that he must purchase increase as fast as his increase in wages. There must be an increase in real wages, which is purchasing power, if he is to benefit. This was shown conclusively during the early history of the N.R.A. It was hoped that increases in prices would lag behind increases in wages as expressed in the President's statement, issued at the time of the passage of the Recovery Act; "We cannot hope for the full effect of this plan unless, in the first critical months, and even at the expense of full initial profits, we defer price increases as long as possible."

Notwithstanding the fact that price advances were expected to lag behind wage increases, it was not intended that profits should be reduced; on the

contrary, profits were expected to be enlarged because of the increasing volume of business. The increased wage cost, it was held, would be offset by the lower unit costs resulting from the expanded output - and this would spread overhead charges over a larger volume of production.

In theory this argument was sound. Industries which were operating during the depression at 20, 30, or 40 per cent capacity found it impossible to earn profits because of the burden of overhead charges, no matter how low the wages. If output could have been expanded to 50, 60, or 80 per cent of capacity, substantial profits might have been earned even though wages were increased more rapidly than prices. As previously stated, it is not true that an increase in wages necessitates a corresponding reduction in profits. Both wages and profits may increase simultaneously when business is expanding - the expanding volume of money disbursements being derived from an increased use of bank currency. This is what usually, if not always, happens in a period of great business expansion.

Unfortunately, however, certain difficulties were encountered during the early operation of the N. R. A. which proved unsurmountable. Business men had to advance the funds required for enlarged wage outlays many weeks or months before returns on

increased sales could be expected. How to procure the money with which to meet these advances was the practical question which each individual business had to face. Eighty per cent of American corporations showed deficits at the time the higher wage program was inaugurated.[1] In times of expanding business the banks can be depended on to help finance business, but not so in the time of depression. The bankers were in a panic and many of them were calling for help. If a business man wanted a loan he had to put up twice the amount in gilt-edged securities, which were confined almost entirely to government bonds.

Had all business enterprises been able to finance the wage increases either with their own or borrowed funds, and in addition had wanted to, the program might conceivably have been carried out without any corresponding increase in prices. However, many business concerns were not in this favorable financial position, some did not want to coöperate with the political administration, many had the "jitters" and did not know what to do and the N.R.A. possessed no authority to compel the bankers to help. The Reconstruction Finance Corporation (R.F.C.) came to the aid of some businesses, principally railroads

1. Moulton, Harold G., "Income and Economic Progress," 1935, p. 106

and other public utilities and some of the banks.

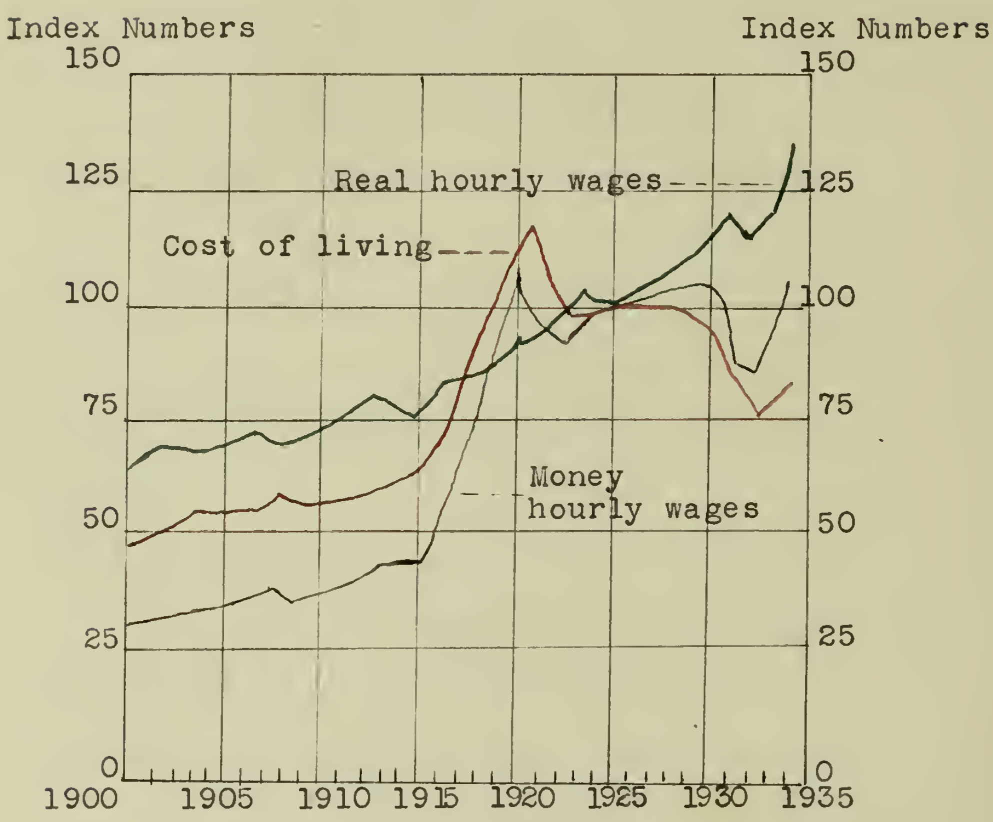
The result was that prices rose almost immediately in anticipation of wage increases together with a gambling on futures because demand was expected to be great, hence, an anticipated rise in price from that source made purchasing brisk. The market became a seller's market, and the price increase preceded wage increases.

But this is only one case over a short run and at the trough of depression when apprehension and even real fear ran high throughout the nation. Let us look over the results of thirty-four years, (1901-1934) a period that covered both expansion and retraction and all stages in between.

The chart on the following page shows the movement of real wages in manufacturing during the period covered, and also money wages and cost of living. It will be seen by comparison that the movement of the three were almost parallel up to 1915, then a sharp rise occured to 1920 in money wages and prices due to war expansion during which time real wages, although continuing to climb were exceeded in rise by both prices and money wages. It will also be noticed that immediately after 1920 prices and real wages began to decline, dropping finally below real wages in 1922 where they have

MOVEMENT OF REAL WAGES IN MANUFACTURING,

1901-1934[1]



1. Based on Moulton's "Income and Economic Progress," p. 108

continued to fluctuate to 1934, while at the same time real wages have continued to rise. Of course these are hourly wage rates and not total amount paid to workers and is confined to manufacturing; however, in the absence of information on the whole field of labor, there is no reason to believe that the same conditions did not exist throughout the field.

The position taken here is that the working man is not so much interested in money wages as in real wages, and that an increase in money wages does not always mean an increase in real wages as demonstrated during the years 1915 to 1920. During the period in question prices rose, not due to wage increases, but due to demand for commodities; and money wages followed, and had to, or the working man could not have stood the differential between the two.

Why did real wages gradually increase over the period in question? It was due to efforts of organized labor in securing wage increases. Does the union ask for increases when business is receding; rarely, if ever. The union officials, those at the top, are well-informed men. They know their work better, many times, than the individual business man or even the industry as a whole. It is their business to know when real wages are in danger of

declining and they usually do. This, the writer believes, is the reason why both prices and money wages have fluctuated more widely than real wages and that only for a comparatively short period did real wages dip down slightly, the general trend being always upward.

The conclusion, then, must be that the raising of money wages is not always a road to progress; that is, it does not always increase purchasing power and make for a higher standard of living. Nevertheless, in the absence of price stabilization which will be discussed later, money wages must keep pace with prices in order to maintain our present standard of living, and in order to increase the standard of living for the working man either prices must be reduced or money wages must be increased, neither of which is done voluntarily by the business man. Pressure must be brought to bear either by organized labor, or by government or both.

3. <u>By Reducing the Amount of Inheritable Property</u>.

Inheritance has been discussed previously as a cause of economic inequality, and we wish to consider here the possible effects of reducing the amount of property that it is possible for any one to inherit, as one of the methods of creating greater

economic equality.

It naturally follows that just so long as people can dispose of vast wealth at will by leaving it to heirs, that long, at least, economic inequality will continue on a large scale. If we inquire into the source of such wealth we shall find that it originated in labor, natural resources and capital. The labor was performed by the laboring man, be he in over-alls or white collar, who constitutes 90 per cent of the American society; the natural resources should have belonged to the state, and did until given, or franchised, away by politicians and much of the original capital was of foreign origin at first, or the little that was used at the beginning was borrowed. A glance at the history of the fortunes of the Mellons, Fords, Rockefellers, Astors, Dukes, Carnegies, and many other of the well known millionaires past and present, will confirm this. The wealth then was obtained primarily from exploitation of labor and natural resources, both of which were furnished by society, therefore the wealth produced therefrom should revert to society. The holder has acted, as it were, as custodian or in a fiduciary capacity and while society does not hold him responsible for successful results, yet, whatever the results it should come back to society as a whole and not to just a few members of it. If the entre-

preneuer is unsuccessful, society suffers even to the extent of having to care for him in sickness, old age and death, why then should it not benefit if he, on the other hand, is successful?

That our system of inherited wealth was once necessary to the world's progress or useful to its political organizations it is not the purpose of the writer to deny. The family was the first political group, and until larger groups were formed, the self-protection of each family group demanded the inheritance of property within that group. In feudal ages, the dominance of ruling families made the same law of inheritance necessary, even to the extent of primogeniture, (inheritance by the eldest son only), in order that the family power might be maintained. But when democracy came into the world, it became necessary to exterminate the idea of "family power." This has slowly been accomplished so far as the right to rule by virtue of birth is concerned. Beginning with the Revolutionary War in the United States in 1776 and the French Revolution a few years later, the world has progressed toward democracy until its principles now seem to be approaching wide, though not yet universal, recognition, as to form of government. It is believed that family power in government has served its day as a principle of progress and development.

One might ask how dictatorship fits into the picture, and the answer is that it is, in the opinion of the writer, a passing fancy. Alexander the Great and Napoleon were greater men than either Hitler or Mussolini and who has arisen to perpetuate their popularity. The more educated people become the more they realize equality by right and the masses will not be kept in ignorance and subjection, except for a time. That "family-power", served the world well in feudal days may be admitted without modifying the fact that the time of its extermination has now come.

But while "family-power" as a factor of visible government is about to make its final exit from the stage of national life, the rules it evolved for its own protection have not yet been radically changed. Civilized nations have long recognized that inheritances ought to be subjects of special taxation; many economists have declared against the principle of collateral inheritance altogether; and some have boldly attacked all inheritance privileges, especially in case of intestacy. Yet, notwithstanding the general recognition of the fact that an inheritance tax is essentially democratic, it has been and still is a comparatively small tax in the United States. It is found in nearly every civilized country on the globe, but it is only in the most democratic countries -

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Great Britain, France, Switzerland, Canada, the Australasian Colonies - that it reaches its fullest development. The United States seems thus far to be an exception to the rule.

While recognizing fully the part that inheritance has played, in former ages, in holding together the resources and power of feudal families during periods of history when "family-power" was important; and while recognizing also that the conservatism of democratic peoples in approaching the present problem of swollen inheritances has been natural and perhaps excusable heretofore, it is believed that the time for a sweeping reform along this line has now come. It was apparent a generation, or more, ago that the great danger in America was the rapid pyramiding of great fortunes, many of the beneficiaries themselves realizing it fully. Each succeeding year, however, has seen an alarming increase of that danger until today, with the aftermath of the world's greatest war; including the defaulting of war loans and even interest payments by debtor nations, the greatest depression that this country has ever experienced and another war probably facing us in the near future, forcing us to devise new means of raising national revenue, it becomes a part of the leading question of the hour.

Mr. H. E. Read believes that inheritance of property should be abolished entirely.[1] This, the present writer believes to be impossible other than in a Communistic or Socialistic state, and America is, and will continue to be, a democracy for many years to come.

Collateral inheritances, without question, should be abolished. A man is not responsible for, or to, his cousin, niece, nephew, uncle, aunt, or even his brother or sister, and certainly not for or to non-relatives; hence there is no reason why they or any of them should profit by his death. In case of direct inheritance the situation is different. Some men have the incentive to save in order that their children can have the advantages of an education and until economic inequality becomes more of a reality than at present such an ambition is a laudable one. The direct heirs should benefit to the extent of enough to properly fit them for life's work, or if a mental or physical defective to care for them through life, but there it should stop.

Professor T. N. Carver accepts the family as the unit of society and classifies the families as to spawners and home builders. He believes that competition takes place between families rather than between individuals, and that abolition of inheritance or any step in that direction would tend to destroy or under-

1. Read, H. E., The Abolition of Inheritance, 1919, p.24 (preface)

mine the prosperity, power and influence of the family building part of the population and make spawners of them. He says, however, that we may confidently expect that the "right," (not privilege of inheritance as Read refers to it), will be more and more curtailed even if it be not eventually abolished altogether in new and prosperous countries.[1]

If then collateral inheritance of property should be abolished and direct inheritance should be very limited, how can this be done? The answer is to abolish all collateral bequests by transfering the amounts thereof to the direct bequests and then tax the direct bequest, or allotment by state statute if the deceased dies intestate, sufficiently to take all, but enough to take care of his dependents until they become of sufficient age to be self-supporting, and to take care of the surviving spouse comfortably.

The plan suggested by Rignano is unique in that he would have the estate taxed 20 per cent the first time bequeathed, 50 per cent the second time, and 100 per cent the third time. This would, on an original estate of $100,000 work as follows: $100,000 x 20% = $20,000 tax, remainder $80,000 to, let us say the son, Upon the son's death he leaves the $80,000 to his son; $80,000 x 50% = $40,000 to the grandson of the first devisor. Upon the death of the grandson the $40,000

1. Carver, T. N., "Essays in Social Justice," 1915, p.304

is taxed 100 per cent and the estate passes entirely out of the hands of the family. The advantage of this plan is that all one earns himself he can pass on, less a 20 per cent tax, but for any estate that he was heir to he could pass on only 60 per cent, if he was first removed from the original devisor and nothing if further removed than that. Regnano claims that this plan would not destroy the incentive to save and yet it would prevent the perpetuity or pyramiding of vast estates.[1]

One argument against abolition of inheritances or any step in that direction is that the wealthy will transfer their fortunes while they are alive. This, too, can be circumvented by the same type of tax on gifts.

Regardless of how the inheritance or transfer is prevented, or minimized, every step in that direction is a step toward economic equality and should be encouraged.

4. By the Elimination of Private Receipt of Unearned Increments in Land Values.

Preliminary to further discussion it will be well to define unearned increments in land values. As previously stated under the caption of Private Ownership of Natural Resources, page 42, there is no exclusively correct definition of an increment. It may be defined in a variety of ways, the one to be selected depending

1. Rignano, Eugenio, "The Social Significance of the Inheritance Tax," 1924, p. 34

upon the purpose of the discussion or the object of the analysis. In general, there are two points of view from which the increment may be considered. These may be designated, the investor's viewpoint and the social viewpoint. From the social viewpoint, and that is how it is considered here, the concept may be expressed as a formula: Increment equals selling price (corrected for change in price level), minus purchase price, plus cost of improvements, such cost to exclude any interest on capital in connection with holding or improving the land. Or to state the proposition more simply, on a piece of unimproved land, the increment is the difference between selling price (adjusted for change in price level) and cost. Whatever that amount is, it represents an unearned increment on the part of the owner. He did nothing to bring it about. It is an increment due to change of the location caused by society and should therefore be an increment to society. If the owner of a vacant lot in the city so situated that, because of a shift in business locations, it suddenly becomes very valuable, just what has he done to deserve the increase in value. If the railroad company builds a station, or the government erects a post office, or any other change of like nature causes more people to pass the location or to frequently be very near to it, the value for business purposes will immediately rise, due to nothing that the owner has done, hence such

increase is the result of action of that part of society that comes and goes by or near to the lot. The increment therefore resulting from the sale of the lot is unearned by the owner and should revert to society, through taxation, and such tax should not be allowed to be decreased by any losses on the part of the owner except losses due to like transactions.

The Federal Government is recognizing this principle now to some extent by requiring capital gains and losses to be reported separately from other gains and losses.

One may ask, what about the farmer who clears a piece of land, plants and cultivates it and later sells it as a farm. The increment due to the labor applied would never be enough to raise a discussion. Labor under such circumstances is cheap. It is only when a shift of population takes place that this land becomes really valuable. In the early days cleared farm lands could be bought for $10 to $20 per acre depending on location and quality of soil, and the government and the several states gave it away, millions of acres of it to railroad companies and to ex-service men. This land began to become valuable when population shifted sufficiently to place markets and neighbors near, or when the railroad made transportation possible

for products grown. Again the population of the cities caused the markets. The truck garden acreage around New York and Chicago that is worth $1000 per acre today owes its worth to the fact that society made the markets and the city life and placed it near the acreage. No one could have moved the acreage nearer the markets, hence the increment is unearned by the owners and should revert to society.

Much technical discussion could be entered into here regarding land rent and its taxation, but it is believed that it would serve no useful purpose, hence it is omitted. The reader is referred to Harry Gunnison Brown's, "The Taxation of Unearned Incomes," for a more detailed and technical discussion.

If the increments above discussed are unearned then by all means they should revert to society by taxation 100 per cent at time of sale, when increments become real, prior to this time such increments are only paper profits.

5. <u>By Reducing Prices</u>.

(a) <u>Distribution Through Price Reduction</u>.

The price-reduction method of distributing income has an outstanding advantage over other methods in that the benefits are extended automatically to the whole population. An increase in money wages, with prices remaining stationary, will enlarge the

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buying power of the wage-earning group, but it will not directly improve the position of the equally important portions of the population which do not work for wages. Similarly, profit sharing may bring higher standards of living to that particular section of the population which is in a position to share in profits, but it will be of no direct value to the agricultural population or to persons whose incomes are derived from salaries. But the reduction of prices gives to every purchaser a larger return for his money.

In order to appreciate the significance of the advantage of the price-reduction method it is necessary to have in mind the composition of the American population as a whole. According to the latest census available (1930) the total population of the United States was 122,775,046 of which 44,636,770 were classified as farm population, while another 9,183,453 lived in towns having less than 2500 inhabitants. The urban population was 68,954,823 of which 4,717,590 lived in towns having between 2500 and 5000 inhabitants. The rural and village population was approximately 44 per cent of the total, and their per capita income was only $273.

If we are to find adequate markets for the products of our industrial establishments the 54 million people who live on farms and in adjoining villages obviously cannot be ignored. The money wage

method of extending the benefits of industrial progress does not include this greatest single group. The price-reduction method, however, automatically extends its benefits to the agricultural and non-industrial small town populations.

The salaried workers, professional people, domestic and personal service employees and those in public service numbering together with their dependents, approximately 20,000,000, have to be classed with the farmer so far as any benefits that they would receive directly by a money-wage method of increasing income.

The farmers have long fought for lower prices on commodities which they have to buy. The struggle underlies the so-called granger movement of the seventies; it explains the traditional opposition of the agricultural South to high protective tariffs; and it lies at the basis of farmer opposition to trusts, monopolies and combinations in all their forms.

Let us, however, make clear again that no blame is being placed upon the wage-earner or his union for trying to keep the money wages of the wage-earner abreast of prices. The industrialist through his trusts, monopolies and what-not has kept prices up, and had it not been for those in a position to drive a collective bargain they and many of their co-workers would not have fared so well as

they have and there would have been no indirect benefits for those outside of the unions.

Before leaving this part of the discussion, let us examine the effects of lowering prices on international competition. In so far as an increase in money wages is accompanied by increaseing prices, the ability of American manufacturers to meet competition in foreign markets is obviously impaired. And even though prices should show no increase, the competitive power of the American manufacturer would be effected in a negative way. That is to say he would not be in position to reduce his selling price with a view to expanding foreign sales.

On the other hand, a progressive lowering of prices of commodities strengthens a nation's competitive position in foreign markets. If the price is lowered to meet foreign competition successfully, it means a greater demand, and greater production follows with an attending lower unit cost and greater profit due to volume of sales. This is the reason, at least partially, that the American manufacturer can ship abroad and sell at a lower figure than he does at home, after paying duties and shipping charges.

The other side of this is the meeting of foreign competition at home. If price reduction can enable the manufacturer to meet competition abroad,

he certainly can do it more favorably at home. This would lead to a reduction of tariffs at home, attending good feeling abroad toward us, a possible reduction of import tariffs, thereby placing the American manufacturer again in a more favorable competitive position abroad.

The broad highway along which continued economic progress must be sought is the avenue of price reductions. When this road is followed the benefits of technical improvements are conferred automatically upon all divisions of the population. Maximum opportunity for expansion of production and the free interchange of goods between different divisions of our domestic economy and between nations is thus provided.

The distribution through price reduction is, then, one method of bringing about less economic inequality.

(b) Price Stabilization in Relation to Economic Progress.

The big business men in America have taken the attitude that prices must be stabilized, and in order to see that this is done trusts, monopolies, trade associations, agreements, and every other device that they could think of have been used for this purpose with the result that the advantages of technological improvements have not been passed on to the consumer. In Europe the cartel has been used for the same purpose.

Even when wholesale prices declined, as they did slightly, during the period 1922-29, the differential was swallowed somewhere between the wholesaler and the consumer. Price stabilization policies have in many lines come to stand in the way of dissemination of the benefits of progress, and have therefore tended to nullify the results of technological advance.

The term "price stabilization" has more than one connotation. In addition to referring to the maintenance of the prices of particular commodities, it is also used in connection with efforts to control the general level of prices through the manipulation of money and credit. Stabilization of the general level of prices by monetary means is outside the scope of the present discussion.

Returning to the problem at issue, and by way of substantiation, the price of pig iron declined between 1870 and 1900 from $33.23 to $19.98 a ton; the price of open hearth steel rails decreased from $106.79 a ton in 1870 to $67.52 in 1880 and to $32.29 in 1900. In contrast from 1902 to 1913 the price remained absolutely fixed at $28.00 a ton, increased during the war boom period and then declined to $28.00 or thereabouts where it has since remained.[1]

As the years have passed the necessity of

1. Moulton, Harold G., "Income and Economic Progress," 1935, p. 139

progressive price reductions as a means of expanding purchasing power and markets appears to have been forgotten, alike by business managers and economic statesmen. The conclusion is inescapable, however, that in so far as the effort to stabilize prices is effective, the broad distribution of income upon which continuous economic expansion depends is circumvented.

It is true that the importance of purchasing power among the masses has not been forgotten. Indeed, there has been a growing recognition of it, particularly since the end of the World War. But discussion of the means of achieving this result has been centered increasingly on expanding money wages rather than on reducing commodity prices. The effort to obtain higher wages have, moreover, encountered various obstacles, with the result that progress along this line has been slow and halting. Moreover, it has been an unbalanced progress tending to self-defeating in character by virtue of the fact that the gains resulting from higher wages accrue only to those particular groups which happen to be receivers of wages. Unlike price reductions, the benefits do not extend to the entire population, and hence tend to produce maladjustments between the different divisions of the economic organization.

(c) <u>What about Profits?</u>

The motivating force in business is profits. The existing system is operated with a view to making profits through selling goods at prices above the cost incurred in their production. Since the continuous payment of interest on invested capital and even of wages and salaries depends upon the profitable operation of business enterprise, industrial policies must ultimately be tested by their effects upon the earnings of business.

It is obviously true that profits are essential under a profit system. But it does not follow, as some believe that "profits make prosperity," or that profits somehow have to be made before any expansion in business can occur. They expand concurrently with the volume of business - because of expanding volume of business; they do not increase first, with business expansion following, as is shown by the following table.

Gross Sales and Profits of Manufacturing

Corporations, 1922-32.[a]

Year	Gross Sales (Millions of Dollars)	Net Profits[b] Aggregate Millions of Dollars)[c]	Ratio to Capitalization
1922	42576	2832	7.6
23	53889	3784	9.5
24	51436	2978	7.0
25	57084	3973	9.0
26	59863	4041	8.7
27	60932	3405	7.1
28	64361	4280	8.6
29	69236	4861	9.2
1930	57687	1530	2.9
31	41978	— 501	— 1.1
32	29078	— 1588	— 4.7

a. Taken from "Income and Economic Progress," p. 149, by Moulton.

b. "Compiled net profits" corrected for intercorporate dividends.

c. Computed before deduction of corporate taxes.

It is true, however, that as profits are made further expansion is facilitated, the process being interacting and cumulative.

To avoid any misunderstanding let it be said that there is no contention here that the level of wages and other operating costs is of no significance, or that business expansion is not stimulated when profits are large. It is merely observed, first, that the volume of profit depends largely upon the volume of sales, and, second, that instead of business expansions being con-

tingent upon a previous increase in profits, any significant increase in total profits can come only with an expansion in business.

In the prosperity period of the twenties there was a great increase in production efficiency; but there was no corresponding reduction in selling prices - indeed retail prices did not decline at all. Instead of vigorously reducing prices as costs were reduced, the practice prevailed over broad and basically important sections of American industry to hold prices at or near existing levels, or even to advance them when the current demand ran strong. Thus the volume of sales was prevented from attaining the dimensions it might have reached.

Instead of tapping the vast sources of potential demand residing in the unfilled wants of the American people, price policy tended to freeze the market at existing levels. Instead of endeavoring to expand sales through price reductions, we sought by high pressure salesmanship and installment credits to induce people to buy more than they could afford. Despite such temporary stimulation of demand and the expansion of sales abroad by means of credits and dumping policies, American industry in general continued to have a substantial margin of unutilized productive capacity.

The point must again be noted, moreover, that, had the volume of sales been expanded as a result of price

reductions, unit costs would have been reduced and profits might well have been larger. The business manager who progressively reduces selling prices as technological improvements are made need have no real concern over the long-run trend of profits. The history of business enterprise shows that under such conditions profits usually take care of themselves; at least the writer's experience of some twenty years in the field of public accounting and as a financial adviser causes him to believe this to be true. However, even if profits should not actually increase, a contribution is nevertheless being made through the expansion of wealth production toward raising the level of material well-being, which is the ultimate purpose of an economic system.

(d) Economic Progress and the Democratic Ideal.

There have been some statements made previously in this thesis that might, if taken singly, lead the reader to believe that some drastic change in the present political system is being advocated. One might, for instance, get the impression that the writer leans favorably toward Socialism or even Communism. If such an impression has been given it is regretted. There are certain weaknesses, in the operation of the system of Democracy as practiced in America, that have left the way wide open for abuses and it is these weaknesses,

and the attending advantages that have been capitalized that the writer is against. That these weaknesses can be made strong, and abuses curbed, to the same extent that crimes such as murder and narcotic peddling are curbed there is no doubt.

Can we not, within the limits of our natural resources, our people and our traditions, with only evolutionary modifications and readjustments to current conditions, restore and stabilize such a productivity of goods and services as will provide a general standard of living as high as that which we have known at the peak of prosperity in the past? Can we not expect to improve our best performances until every citizen (barring physical and mental defectives) who cared to exert himself could attain a material standard of living equal, at least, to that of the so-called "middle class" in the prosperous days before the collapse of 1929?

Taking as a basis of consideration the four studies made by the Brookings Institution, previously referred to, there seems to be little if any doubt that much improvement in the living condition of the mass of our people can be improved.

The findings in the first study, "America's Capacity to Produce," were to the effect that plant and labor capacity under prevailing techniques and schemes of industrial management showed an unutilized

capacity capable of bringing the incomes of all the lower classes well above the $2000 per family level. And this did not take into consideration potential future development of new techniques or plans of business reorganization.

In the study of income distribution and its results, as reflected in "America's Capacity to Consume," it was found that the proceeds of the nation's productive efforts were going in disproportionate and increasing measure to a small percentage of the population - in 1929 as much as 23 per cent of the national income to 1 per cent of the people. It was found that the unsatisfied wants - needs according to any good social standard - of the 92 per cent of all families who were then below the level of $5000 annual income, sufficient to absorb the product of all our unused capacity under the then present conditions of productivity and still demand much more from such unexplored potentialities as might thereafter be opened up. It was found that the incomes of the rich were going in large proportions to savings and that these savings strongly augmented by others impounded at the source by corporations through the practice of accumulating corporate surplus. These savings, after providing for such increase of capital goods as could be profitably employed, were found spilling over into less fruitful or positively harmful

uses, ranging from foreign loans (bad as well as good) to the artificial bidding up of prices of domestic properties, notably corporate securities.

Thus, it began to be evident, that the basic defect in our economic system, not discovered in technical processes of production was to be found in the way in which we conducted the distribution of income. "The answer is affirmative," says the author, H. G. Moulton, "this is the place at which we do find maladjustment."

The significance of the magnitude of the disorder in terms of national well-being is, however, not fully measured by the amount of the loss in income at any given time. It was found from measuring productive capacity that we were able to operate in good times at about four-fifths capacity. But this is only a part of the story. The answer thus far is in negative static terms, whereas we should think in dynamic terms of a society marching forward at as brisk a tempo as the progress of its knowledge and invention makes attainable. In a society in which consumption lags behind productive capacity we have not only unutilized capacity, but also a retardation of the rate of new capital development.

If the means of closing the 20 per cent gap between capacity and utilization could be found, we should in the process be doing something more - something of even greater importance. We should be progressively

reaching over the old limit of productive capacity, tapping new sources of efficiency, unleashing forces of progress which come to action only as the prospect of profitable use becomes clearly discernible. As this dynamic situation is attained, suppressed patents would have to be brought into use, new inventions stimulated, and obsolete machines would have to be replaced by others more modern and efficient. No actual addition to production can be a harm to the economic body except as our system fails to provide for distributing the net product fully and promptly into the hands of actual consumers, (not mere accumulators).

6. By Communal Provision of Equality of Opportunity.

If every individual were reared in conditions as favorable to health as science can make them, received an equal, thorough and stimulating education up to eighteen, and further, if his capabilities seem to warrant it, and knew on reaching manhood that, given a reasonable measure of hard work and good fortune, he and his family could face the risks of life without being crushed by them, the most shocking of existing inequalities would be on the wane.

(a) Education.

While free education through high school in this country has come to be an accepted necessity, especially in the wealthier states, equal opportunity

is a long way from being provided.

To the question whether the richer states should be taxed by the federal government to help support the schools of the poorer states, it is extremely difficult to say no. Precedent, both in and out of the educational field concurs in the proposal, and the National Advisory Committee proposed to Congress recently the appropriation of $70,000,000 in 1938-39, expanding to $199,000,000 in 1944-45 for the improvement and maintenance of elementary and secondary schools.

"The least satisfactory schools in the United States," the committee reports, "are now to be found in the rural areas."[1] The reasons are fairly obvious. Usually rural families have more children than do urban families. At the same time, unhappily, they usually have less money. In consequence the committee found that in 1935-36 the average expenditure per pupil in the rural schools was $67.40 compared with $108.25 in urban schools. To expect the predominently rural states to increase this allowance, the committee intimates, is to expect the impossible. With many children and little money it is difficult for most of them to support their present public schools, and more difficult to improve them.

The young people of those states are Americans.

1. The Boston Herald, "Uncle Sam and Schools," editorial, February 25, 1938.

All of them will vote some day for president; and a large number of them will go to New York, Chicago, and other large cities to live and work. It is to the advantage of the large cities to see that they are properly educated and become good and useful citizens. And not only that, which is the selfish side of it, we owe it to those children to give them an equal opportunity in life and the place to start is with their education.

Further than this, to those children who show capability by scholarship in the public school we owe the opportunity of a college education, whether or not they are outstanding athletes.

President Conant of Harvard has expressed his idea along this line repeatedly. It is to the effect that worthy and capable young men should be given the opportunity to further their educations whether or not they or their parents can afford to pay for it. The Harvard national scholarship plan has now given the opportunity to a group of sixty-six national scholars from fifteen states in the Middle West and West.

In his recent annual report, (January 7, 1938),[1] Dean A. C. Hanford declared, "Extension of Harvard's national scholarship plan is one of the greatest educational needs of the country. Such a move offers

1. Boston Traveler, "Harvard Plan Spread Urged," January 7, 1938

virtually the only solution to the problem raised by the fact that many brilliant high school graduates are financially unable to attend any college."

"Under the program inaugurated in 1934 by Dr. James B. Conant, president of the university, exceptionally promising high school seniors compete for the awards. The winners selected without regard for financial need, receive stipends ranging up to $1200 a year, sufficient to cover all expenses, and the awards are renewed for the rest of their college careers if the students do honor work as freshmen."

Pointing out how the scholarships have made "worthwhile contributions to the intellectual and general life" at Harvard, Dean Hanford reported that more than 60 per cent of the 36 national scholars in the upper classes are in the two highest honor groups.

"Six of the ten national scholars in the original group which entered in 1934 have already been elected to Phi Beta Kappa and all but four of the thirty-six have taken an active part in extra-curricular activities," he reported.

This shows what can and should be done all over the country for worthy and capable young people. Undoubtedly America will be a better place in which to live because of the majority of such young people if given an opportunity.

On the other hand Dr. Conant also advocates reducing enrollment of colleges by excluding therefrom those unfit for further education as demonstrated by more highly selective method, regardless, again, of their financial positions.

In all of the above the writer concurs to the fullest extent, and calls attention to the further fact that where colleges are not financially able to do as Harvard has they should be subsidized by the federal government to the necessary extent, keeping in mind always that it is the worthy and capable to be helped.

(b) Other Communal Opportunities.

Socialized medicine is being fought bitterly by the American Medical Association and yet it is believed to be necessary and that sooner or later it will come. Why is it today that one is classed as a millionaire or pauper so far as medical aid and hospitalization are concerned. The rules are rigid and one abides by them or else received no attention. If a laborer wants his own doctor to care for him at the hospital he cannot occupy a ward bed but must pay anywhere from \$5.00 a day up for a place to lie and must then pay for all medicine, laboratory work, etc. If he wishes to classify himself as a pauper and accept charity he can go into the ward at \$3.00 per day provided there is room. The average American does not want something for nothing. He wants

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to pay for what he gets and yet he cannot afford to pay a millionaire's price for an operation and a place to have it done. Free libraries have been a boon to America, thanks to Carnegie for starting the idea. We need more such advantages for those who could not otherwise afford them. The spreading of community centers, encouraging of boy and girl scout units with capable leaders, federal housing projects, community nurse visitations and the destruction of slum areas are all services that the masses would be better off for having and furnishing them would pay society as a whole in handsome dividends.

PART VII

Conclusion

That there is wide-spread economic inequality in America ranging from those who are totally on the welfare for support to the man with an annual income of more than a million dollars, no one who reads the daily papers or listens to the radio broadcasts will doubt.

An effort has been made here to show some of the many causes of such inequality and wherein each contributes to the unhealthy conditions that we know exists. The fallacies of the various theories of wages have been discussed. The economic harm caused by monopolies in price fixing and stabilization and in control of public opinion through the press, radio, schools, churches and the state has been shown. The inheritance of property has been shown to be a very productive source of economic inequality. Private ownership of natural resources, and financial manipulation and speculation have each contributed to the subject under discussion.

Causes always have their consequences and an attempt has been made to show some of the consequences of economic inequality in social stratification, varieties of standards of living and unequal opportunity to develop innate abilities.

Merely stating causes and consequences would be an historical treatise, therefore, some methods of creating greater economic equality have been suggested. Among these are the state control of minimum wages, unionization of labor and collective bargaining, the minimizing of inheritance of property, the elimination of the private receipt of unearned increments in land values, the reducing of commodity prices and the communal provision of equality of opportunity.

In addition to the above, it is believed, that the only way to have a genuine democratic state is to have the largest industries including public utilities and banking operated by and for the public on a non-profit basis, and to have other businesses under more strict regulation than they now are. There is an inherent weakness and inescapable paradox in an uncontrolled capitalistic state. To the extent that it attempts to control business it runs up against all the power of capitalism with its irresistible profit urge, which then usually proceeds to control the government. On the other hand, if the state does not regulate business the people also become the victims of exploitative capitalism.

As much, however, as we all love a panacea there is no one single formula that will cure the ills

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of our economic body. It has too many organs, as it were, and we must be careful lest the strong medicine applied to strengthen one does not weaken another. Labor, capital, production, distribution all claim our attention; each individual, who thinks, has his own ideas, and usually his ideas are for his own betterment. Human nature is selfish, but if we could,each of us, give some toward the good of the whole, much of what is wasted in time, effort and money could be saved, decisions reached and put into practice and everybody would be happier. Would this be utopia? Perhaps it would, but it is attainable. If we would unite on our own internal problems as we do against a common outside foe, there would be no hungry children, no shelterless men except from personal choice, no apparent need of vice for a livelihood, and, in the humble opinion of the writer, much of the vice, crime and squalor of our country would disappear. Is this moral or religious philosophy? It is good economics too.

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