

# Alfred Marshall

in A. C. Pigou (ed.)

*Memorials of Alfred Marshall*

London, Macmillan, 1925



## A FAIR RATE OF WAGES (1887)<sup>1</sup>

THE term "remuneration," is here used broadly, so as to include the money equivalents of all the net advantages of an occupation, as well as the money-payments which belong to it. An absolutely fair rate of remuneration belongs to Utopia: but there is much to be learnt from trying with the socialists to ascertain how far it is thinkable, and how far it is attainable. But in fact all socialist schemes, which have any claims to be practical, avowedly involve a compromise: they do not venture to dispense entirely with material reward as an incentive to industrial energy; though they rely less on it, and more on the sense of duty than our present system does. But this compromise prevents them from claiming to be logically thought out schemes of absolute fairness.

Fairness then cannot be absolute, but must be a matter of degree. Even for the purpose of day-dreams we must deliberately frame our notions of equity in the distribution of wealth, with reference to the methods of industry, the habits of life, and the character of the people for whom we are trying to discover a realizable ideal. And much more must we do this when we are trying to construct a working plan, which will so accommodate itself to the actual conditions of business as to be accepted in preference to the excitement of conflict by people as they are, with all their hot impulses, their combative instincts, and their inherited selfishness.

There may indeed be a question whether there is room within these narrow limits for any useful definition of "a fair rate of wages." But the phrase is constantly used in the market place; it is frequent in the mouths both of employers and of employed; and almost every phrase in common use has a real meaning, though it may be difficult to get at. Those who use the phrase, when pressed to explain it, often give an account that will not bear examination; but after the matter has been discussed for

<sup>1</sup> This essay reproduces the substance of the Preface contributed to Mr L. L. Price's *Industrial Peace*, 1887.

a time, the meaning that is latent in their minds works itself to the surface.

The basis of the notion that there should be given "a fair day's wage for a fair day's work," is that every man who is up to the usual standard of efficiency of his trade in his own neighbourhood, and exerts himself honestly, ought to be paid for his work at the usual rate for his trade and neighbourhood; so that he may be able to live in that way to which he and his neighbours in his rank of life have been accustomed. And further, the popular notion of fairness demands that he should be paid this rate ungrudgingly; that his time should not be taken up in fighting for it; and that he should not be worried by constant attempts to screw his pay down by indirect means. This doctrine is modified by the admission that changes of circumstances may require changes of wages in one direction or the other: and again, the rule may be held not to apply to cases such as that of needlewomen, where the customary wages are too low to support a healthy life. But substantially it is accepted and acted on in ordinary life.

For instance, if a carpenter has made a box, or a surveyor has made a map of some land for us, we consider that he acts fairly by us, if he does not attempt to take advantage of our not having made a bargain beforehand, or of our ignorance, or of any special hold he may have over us: that is, if he charges us the price of his services at about the rate at which he would expect to be able to dispose of them to those who understand his trade. In this we are not trying to settle, according to an absolute standard of justness, how much of a carpenter's labour ought to be paid as highly as an hour's work of a surveyor. We are not inquiring whether the social system which permits great inequalities in their usual rates of remuneration is the best possible: but taking the present social system as it is, we want to know whether those with whom we are dealing are doing their part to make it work smoothly.

The average rate of earnings of a surveyor is limited on the one hand by the demand for a surveyor's work: but it is determined chiefly by the difficulty and expense of acquiring the knowledge and skill required for his work: the rate of earnings which are required to induce a sufficient number of people to

become surveyors is the "normal" rate of surveyors' earnings. This normal rate has no claim to be an absolutely just rate; it is relative to the existing state of things at a particular place and time.

The normal earnings of a carpenter and a surveyor might be brought much nearer together than they are, by even so slight and easy an improvement on our present social arrangements as the extending to all persons of adequate natural ability the opportunity of receiving the training required for the higher ranks of industry. But we have to take things as they are; and, as things are, the price at which a man in any trade can expect to get steady employment, from those who are good judges of the value of his work, is a tolerably well-known normal rate. The surveyor or the carpenter who always charges about this rate to any customers, however ignorant, and without putting them to the trouble of beating him down, is said to do his business fairly.

Similarly a fair employer, when arranging for the pay of a carpenter, does not try to beat him down, or take any indirect advantage of him; but, at all events under ordinary circumstances, offers at once whatever he knows to be the "normal" rate of pay for that man's work: that is the pay which he would expect to have to give in the long run for an equal amount of equally good work if that man refused to work for him. On the other hand he acts unfairly if he endeavours to make his profits, not so much by able and energetic management of his business, as by paying for labour at a lower rate than his competitors; if he takes advantage of the necessities of individual workmen, and perhaps of their ignorance of what is going on elsewhere; if he screws a little here and a little there; and perhaps in the course of doing this, makes it more difficult for other employers in the same trade to go on paying straightforwardly the full rates. It is this unfairness of bad masters which makes trades unions necessary and gives them their chief force: were there no bad masters, many of the ablest members of trades unions would be glad, not indeed entirely to forgo their organization, but to dispense with those parts of it which are most combative in spirit. As it is, though at great expense to themselves and others, they succeed tolerably well on the whole in preventing

individual masters from taking unfair advantages of individual men.

The starting point then in our search for the fair rate of payment for any task, in the limited sense of the word "fair" with which alone we are here concerned, may be found in the average rate that has been paid for it during living memory; or during a shorter period, if the trade has changed its form within recent years. But this average rate is often very difficult to determine; and therefore for practical purposes it is generally best to take in lieu of it the rate actually paid in some year when, according to general agreement, the trade was in a normal condition. This gives very nearly the same result, and is more definite and less open to dispute. It is then assumed as a starting point that the rate at that time was a fair rate, or in economic phrase that it was the normal rate; that is, that it was about on a level with the average payment for tasks in other trades which are of equal difficulty and disagreeableness, which require equally rare natural abilities and an equally expensive training. And accepting this year as a normal year for the trade implies an admission that the current rate of profits in the trade was also normal. Differences in ability or in good fortune may have been causing some employers to make very high profits while others were losing their capital; but taking one with another it is supposed that at this standard time their net receipts gave them interest on their capital, and earnings for their own work in managing the business, at the same rate as work in other trades which was equally difficult and disagreeable, and which required equally rare natural abilities and an equally expensive training.

*Problems of a time at which general economic conditions  
are changing quickly*

Changes in the course of trade may of course require considerable departure from this starting point. These changes are of many different kinds. Some are gradual in action, and work slowly for a long time in one direction. For instance a new trade has at first normal wages higher than other trades of equal intrinsic difficulty; it is difficult because it is unfamiliar. Gradually it becomes familiar, a great many people have been brought up

to it, and its wages slowly sink to a lower level. Or again, improvements in machinery, which cause it to work more smoothly and with less care, may lower the strain required for performing the same nominal task, and thus lower the nominal rate of wage, even though the payment for work involving a given strain is stationary or rising. Or again, the mean level of the general purchasing power of money may be moving slowly upwards or downwards, in consequence of changes in the supply of the precious metals, or of gradual changes in the volume and character of banking and general business. All these are slow changes; there may be disputes as to the facts of the case: but when once they are clearly ascertained, the course is generally clear. Setting aside all questions as to the right of some to be rich while others are poor, it is "fair" that full effect should be given to these changes. For they have on their side natural forces so powerful that opposition to them cannot be successful for long: and it cannot as a rule be maintained even for a short time without recourse to the harsher measures of trade combinations—measures that involve war open or concealed between employers and employed, or between both and the purchasers of their wares. Industrial wars like other wars involve so much waste, that the net gain which they bring to the winners, if any, is much less than the net loss to the losers. And therefore the side which adopts measures of warfare in opposition to changes that are irresistible is generally acting not only unwisely, but also unfairly.

It is, however, often difficult to know how far any set of tendencies is irresistible; how far the causes now acting in one direction are likely to be overborne before long by others acting in the opposite. The presumption that it is part of the employer's business to undertake the risks of the trade, makes it very difficult to know how soon and how far he ought in fairness to concede to his men the full advantage of any improvement in the condition of trade, which may after all last but a short time; and how soon and how far he may require of them a fall in wages to meet a drooping condition of trade which may be but temporary.

In the ordinary course of things the first benefit of an improvement in the demand for their wares goes to the employers; but

they are likely to want to increase their output while prices are high, and make high profits while they can. So they soon begin to bid against one another for extra labour; and this tends to raise wages and hand over some of the benefit to the employed. This transfer may be retarded, though seldom entirely stopped, by a combination among employers, or it may be hastened on by the combined action of the employed. As a general rule employers will be bound in fairness to yield at once in such a case a considerable part of their new profits in higher wages, without waiting till their men force it from them by warlike measures, which necessarily involve waste. Even if they succeed temporarily they will set going a spirit of contentiousness, and check the inflow of additional supplies of labour into their trade; the net gain which they get from refusing to yield will probably be small, while the net loss to the employed will be great; their action will be unfair. Fairness requires a similar moderation on the part of the employed. If they try to force wages so high as to leave a very scanty profit for their employers just at the time when they might expect to make their best harvest, capitalists will be discouraged from entering the trade; probably even many of those in it will leave it when work gets slack, even if they do not fail when the first touch of depression comes. The men will then find it difficult to get employment, and will probably thus lose more than all they have gained by their extreme demands, even if they should be successful in the first instance; the net gain to themselves will be little if any, the net loss to their employers will be very great; their claims will be unfair.

When trade declines, the loss in the first instance falls on employers; as prices generally rise before wages rise, so they fall before wages fall. The duties of the two sides are now reversed. The men ought in fairness to yield something without compelling their employers to fight for it; and nothing short of absolute necessity will make it fair for the employers to demand a reduction of wages so great as to cause much suffering to the employed, and drive many of them out of the trade. For such extreme demands will bring them, even if temporarily successful, a very small net gain in proportion to the net injury done to the employed.

Sometimes indeed, for tactical reasons, either side will demand at first more than it expects to get; but, though this may be inevitable in a state of suppressed industrial warfare, it is injurious to the common interests; it is fair only in the sense in which everything is fair in war; it is unfair from the point of view of industrial peace.

From that point of view again it is unfair for the men to spring claims for an advance on an employer suddenly, when he has just taken important time contracts under heavy penalties; it is unfair for the employer to take advantage of the fact that the men have had irregular employment and are short of money, and to use this as a lever for compelling them to work at a lower rate than the necessities of the case demand.

These are typical instances of what is unfair; there are many other classes of action which are ungenerous, and others again which would be avoided by an employer who acted up to the highest standard of unselfishness. But with these we are not directly concerned just at present. We have before us now only the narrow and limited inquiry, how far it is possible for frank dealing in a friendly spirit between employers and employed to remove those unfair dealings, and suspicions of unfair dealings, which are the chief causes of industrial war.

### *Boards of Conciliation*

The best method is that of Conciliation. Delegates of employers and employed meet from time to time with the intention of speaking with perfect openness, avoiding everything like special pleading; each side trying to put itself into the point of view of the other side, and being careful not to make a demand which appears unreasonable when considered from that point of view.

They have two kinds of inquiry before them. In the one they move, so to speak, horizontally: they bring under comparison different kinds of work at the same time. Thus, in mining, different rates have to be made for different kinds of coal, and even for different seams of the same coal: while in some trades, as, for instance, the hosiery trade, prices for many kinds of work have to be agreed on. And, the most intricate matter of all, allowance has sometimes to be made for differences in the

condition of the plant of different manufacturers; a rate, which is fair in a factory which has all the latest improvements, may be unfair in a badly organized factory with antiquated machinery. But, complex as these details are, this horizontal levelling of prices is comparatively easy; an agreement is often obtained with surprising quickness where there is a frank and genial disposition on both sides. The difficulty is much greater when the exigencies of the time require the price of the standard task—whether paid by the day or by the piece—to move above or below its standard level, and the calculations have to be made vertically instead of horizontally.

Since working men get less good from a temporary rise of their wages above their usual level than they do harm from an equal fall below it, therefore the fluctuations of wages should be less in proportion than those of the profits of the employers as a body. But here it may be right to make some difference between specialized and non-specialized workmen. Skilled miners cannot turn to other work when mining is depressed without great loss, and their numbers cannot be quickly increased when there is a great demand for their work: their fortunes are more intimately bound up with mining than those of the labourers and others who work on the surface of the mines. It is therefore in accordance with sound principle that the wages of underground men should follow the fluctuations of the trade more closely than those of "surface men." Next it is not fair that the workmen should share in the good or ill fortunes of the particular firm by which they are employed, unless they have made a special agreement to do so. Profit sharing arrangements, when well managed, are a gain to all concerned: but it is difficult to make them, and more difficult to keep them up. They require a good deal of mutual knowledge and confidence on the part of employers and employed; they are essentially matters for individual dealing, and not as a rule suitable for management by Boards of Conciliation, which often have to deal with very wide areas.

Speaking generally Boards of Conciliation have nothing to do with the profits of particular employers. But they are very much concerned with the profits of employers taken as a body: for these are the chief measures of the prosperity and adversity



of the trade; and in some cases where the relations on both sides are thoroughly confidential, it may be possible to explain to the employed the general course of profits. Often, however, all that can be done is to enable actuaries appointed by them to examine the books of the firms concerned, and to ascertain from them the mean prices got for the goods sold, and in some cases a few other broad facts; holding the rest of the knowledge thus acquired under the oath of secrecy. These results are communicated by them to the Board, and are made the basis of the adjustment of wages; because they indicate better than any others, which are equally definite and easy of access, the amount of the common net fund available for division between employers and employed.

If the arrangement agreed on at any meeting is intended to last only for a short time, and to be revised as soon as there is any change in the circumstances of the trade, its details may be handled with great freedom; many of them may be determined in some measure by general impressions; they need not be calculated by rigid arithmetical processes from definite numerical data. Account may be taken of special circumstances which press heavily on employers or employed, or any group of them. In particular when irregular employment and low wages have caused much suffering among the employed and their families, the employers may be willing to trench on their reserve funds, and allow for a time wages to stand in such a relation to prices as would, if adopted as the basis of a permanent arrangement, soon land them in bankruptcy. If the meetings are frequent, and managed with frankness and kindliness, the future, though unknown, may cause no anxiety; it is nearly as good for either side to know that a fair concession will be made by the other whenever circumstances require it, as to know what that change will be. And the elasticity of this plan gives it great advantages over the rival plan of a "sliding scale"; that is a scale which determines beforehand how great a rise or fall in wages is to be accepted as the result of any given movement of prices upwards or downwards.

These advantages are of great importance in the case of a Board which represents only a small area; for then frequent meetings involve no great expense or loss of time; the delegates

can quickly ascertain the views of those whom they represent on any new turn of the situation. But, if the area represented by a Board is very wide, it must proceed on general rules; the delegates may be authorized to act frankly and fairly, but seldom to act generously; therefore the elasticity gained by frequent meetings of the Board will not be of much avail. For the settlement, then, of a price list for a wide area, a well thought out sliding scale seems to be the best means attainable under our present social conditions.

In some trades, as for instance in coal mining, there is very little outlay for raw material, the circulating capital of the employers goes almost wholly in wages, perhaps in "royalties" to owners of land in which the mineral strata lie: so the price of the product is the best simple index of the prosperity of the trade. The plan therefore of fixing wages in the coal trade at a fixed sum together with a certain percentage of the price of coal is both usual and satisfactory. The profits or net receipts of the employers of course oscillate more violently than their gross receipts; these vary, as a rule, roughly with the price of coal. So this plan secures, as it should, that wages should generally rise when profits rise, and fall when profits fall; but with oscillations of less amplitude, rising less when they rise, and falling less when they fall, than profits do. In the iron trade the cost of raw materials is heavy: and probably the best simple scale for it is based on the excess of the price of a ton of iron of a certain quality over the sums of the prices of the coal and ironstone used in making it. As however these latter prices are often subject to very much the same influences as that of iron, the plan of basing the scale on the price of iron simply seems not to work badly. But in the textile and some other trades the prices of the raw materials depend on a great variety of causes (such as the weather in America or Australia), and the standard must be, not the price of the finished material, but the excess of that over the price of the raw material of which it is made.

Of course money is a bad measure in which to express any arrangement that is intended to last long: because the purchasing power of money is always changing. When trade is good and prices are high, the employer's fixed charges are light, and

he borrows with a light heart: when trade is bad the consequent fall of prices increases the burden of his fixed charges, and if called on to repay his debt he must make very great sacrifices of his goods. A perfect standard of purchasing power is unthinkable: even a nearly perfect standard is unattainable. But Government could easily publish from time to time the money value of a unit of purchasing power which would be far more nearly constant than the value of money is.

I think it ought to do that. And then nearly all wage arrangements, but especially all sliding scales, should be based on that unit. This would by one stroke make both wages and profits more stable, and at the same time increase the steadiness of employment. It would perhaps be a further improvement if a special unit could be made for wages: that should be based on the general unit, but differ from it by giving greater weight to the prices of the commodities chiefly used by the working classes. Details of this kind might, however, be arranged gradually and tentatively; and in fact this part of the work would probably best be done not by the government, but by boards of conciliation making use of the data supplied by government, and taking account of conditions special to their trade and locality.

So far it has been assumed that everything works smoothly. But, even when there is the best intention on either side of a board of conciliation to be frank, and to look at things as much as possible from the point of view of the other side, there may be differences of opinion which cannot be removed by discussion. A stage may indeed be reached, at which further explanations only accentuate a deep seated difference of opinion. Therefore provision must always be made for referring some points to an independent arbitrator. But here is a dilemma. If he is connected with the trade he is likely, even though he has no personal interest in the questions at issue, to enter on them with a certain bias: if he knows nothing of the trade, a great deal of time will be taken up in explaining to him the position, and after all he may not understand it rightly. There has been much discussion as to which of these two evils is the greater. When there is mutual confidence and good temper and the suspicion of partisan bias is not likely to be strong, it may be best to have an arbiter

who already understands the trade, and can give his decision more promptly and more in detail than an outsider could. But, if angry and jealous feelings have already been roused, and there is already a tendency on either side to impute unfairness to its opponents; then it is more important to know that the arbiter comes to the question without bias, than that he will understand it quickly, and be able to enter into all its details.

The action of the arbitrator must in some respects depend on the temper in which the case is presented to him. Sometimes the true facts of the case will be put before him at once, neither side making *ex parte* statements; and, what is even more important, neither side so mistrusting the other as to refuse to make concessions lest they should be taken to indicate weakness and fear, and encourage the other side to be the more aggressive. Sometimes also he will be given to understand that he should determine what is fair with reference only to the general tendency of economic forces, and that he is not to take account of the extent of the preparations for war ready on either side. In other cases, in which hostile feelings are already roused, the leaders may be unable to guarantee that the rank and file will accept a decision that awards them much worse terms than they could get for themselves by a sharp strike or lock-out. The arbitrator then is compelled to take some account of the fighting forces of the two sides; the necessity to be practical may compel him to go further than he would otherwise have done away from an absolute standard of fairness. In such cases, too, he must take for granted that the statements made by either side will be *ex parte*, and conduct his inquiry more or less after the manner of the law courts. This method of investigation is so cumbrous and slow that it cannot be very often resorted to; but, if it does its work thoroughly in a typical case, the indirect influence of its final award may extend very far: it may help many other differences to be settled quickly and quietly in private conversation or by boards of conciliation, and thus may be well worth the time and trouble it requires.

An arbiter, even if he starts with a knowledge of the trade, cannot deal with a detailed price list as easily as a board of conciliation, in which there is a healthy spirit, and which can appoint sub-committees to draw up the first drafts of portions

of the price lists relating to special branches of the trade. Therefore, when there is a great variety of detail, any other course than that of conciliation seems hopeless; there is little room even for the action of trades unions, except in the matter of accustoming the workers to know and trust one another, to select able delegates, and to submit bravely to their decision. But this is a most important exception: independently of any direct effect on wages, trades unions have done an inestimable service by teaching members of the same trade to know and trust one another, to act together, and to discuss under the guidance of the ablest minds among them questions of wide and far-seeing policy.

The considerations on which the decision of an arbitrator must be based are as various as human life itself. But yet there is one broad principle which must underlie his work. He must, as the earlier economists would have said, conform to Nature. That is, he must not set up by artificial means arrangements widely different from those which would have been naturally brought about. For, if he does, his work will be in strong conflict with natural forces, and it will be destroyed. He must follow the example of Rennie, who, when he had to construct a break-water in Plymouth Sound, first set himself to discover the slope on which the natural action of the waves of the sea would arrange a bank of stones. He then let stones drop into the water so as to form such a slope: and the force of the waves, instead of overthrowing his work, only built it compact together and strengthened it. He controlled Nature because he guided her forces, while conforming to her laws: and this is the proper work of industrial conciliation and arbitration.

Of course there is a Normal value about which the wages of each kind of labour tend to fluctuate. This value changes with the growth of civilization and the progress of invention, and with changes in man's habits and character: but, at any given place and in any given age, the general relations of the wages of one trade to those of others are determined by the operation of broad causes; and any attempt to keep wages much above or much below their natural level will be opposed by strong natural forces, and will fail.

Such awards should follow the tendency of natural laws to

raise wages when trade is good, and lower them when it is bad. But the fluctuations in the wages of labour are naturally less violent than those in the prices of many goods; and, as variations of wages introduce a harmful uncertainty into the workman's life, conciliators and arbitrators should aim at making these fluctuations as small as they safely can, without holding out to either side a strong inducement to repudiate or evade the award. Mischief almost always results in the long run from an award which gives to one side terms much worse than those which it has good reason to believe that it could obtain by a strike or a lock-out.

Conciliation and arbitration are, indeed, helpless to secure for the feeblest and most ignorant class of workers a decent wage. The "sweater," who, as some sweaters do, works hard himself, earns but a moderate income, and pays promptly and ungrudgingly the highest wages that his trade will bear, cannot be said to act unfairly; but yet few are bold enough to say that he pays fair wages. The fact is that the root of this difficulty is not so much in our methods of business, as in those of education in the broadest sense of the term. Production is at fault, but it is the production of human beings. For this evil the ultimate remedy is in the higher education of the mass of the people. School work is useful as a foundation: but by itself it reaches only a little way. Trades unions increase the intelligence of the workman, by opening his mind to broader problems: boards of conciliation, together with the great co-operative movement, are carrying his education further. They are giving him an acquaintance with the real problems of business, which is the one thing wanted, provided he has good natural abilities, for enabling him to do high work in organizing the world's production. Every increase in the ranks of those who have this power increases the competition of employers for the aid of the employed, and diminishes the toll which has to be paid by the working classes to those who organize the work of the community. And further, anything that widens the intelligence of working men of ordinary ability, who have no natural capacity for the highest work, improves the prevailing tone with regard to the manner of expending the family income, and the responsibilities of parents towards their children.

Though, however, for helping the lowest class of workers we must look elsewhere than to systems of conciliation, these systems are, as has been shown above, a powerful means of raising the working classes as a whole. They are scarcely less powerful a means of raising their employers. The frank and free intercourse at the boards is helping employers to look at their business on its human side, to see that sometimes what is little more than a mere move in a game to them, may affect the whole future of many families; may help happy lives to expand in full vigour, or may turn them into a sour and stunted feebleness. The knowledge and sympathy thus gained by the employers raise those even of the rich who are not in business, widen their notions of justice, and aid them in realizing the responsibilities of wealth.

All these are steps upwards. They have not the rapid pace of a revolution: but a revolution sometimes rushes backwards faster and further than it had moved forwards; and steps such as these move steadily onwards.