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SOME THEORETICAL OBJECTIONS TO SLIDING-SCALES.

My object in this paper is not to argue that sliding-scales have proved and are proving valueless, but merely to point to certain theoretical imperfections. It goes without saying that theoretical imperfections need not in practice prove fatal. It seems to me not unlikely, however, that the growing dissatisfaction with sliding-scales is partly due to an undefined recognition of these defects; though undoubtedly it is due partly to natural oscillations in public opinion. At the close of the paper something will be said of the good work done by sliding-scales and of the causes of the signal success achieved by them in this country.

That there is to-day a reaction against the use of sliding-scales nobody would think of denying. Contrast, for instance, the following statements by two well-known economists. Prof. Munro said that they were the greatest "discovery in the distribution of wealth since Ricardo's enunciation of the law of rent." In 1892 Prof. Schmoller wrote: "It is questionable whether the principle itself (implied in sliding-scales) is right that wages should vary just as profits." Contrast further the facts of some ten to twenty years ago with the facts of to-day. At some time prior to 1888 almost all the colliers of England, Wales and Scotland were working under sliding-scales and in addition a great many of the iron miners, blast furnacemen and iron and steel workers.¹ Now the last sliding-scale in the coal trade, that of South Wales, has just been repudiated; in iron-mining in 1900 only one firm was using the sliding-scale and in lime-quarrying only one firm. In the manufacture of pig iron and in the iron and steel industries it is true that the numbers paid by sliding-scales are considerable; but there the list ends. Last year a sliding-scale was proposed in the cotton-spinning industry and a conference was held, but the attitude of the men showed clearly that they did not desire it.

¹ The first sliding-scale was Thornicroft's, which was introduced in 1840.

On the Continent sliding-scales never took even temporary root, and in the United States while they are said to work satisfactorily in the iron and steel trades, they have met with little success in any other field.

It has been argued that this method of settling changes in wages would work without a hitch if only operatives and employers showed a little more patience. But any system, or no system, would work if both parties were perfectly patient and sensible. It is not as a rule fully recognised that certain fundamental difficulties are inherent in the use of sliding-scales, and, therefore, some analysis of their implications may prove serviceable.

It is now commonly assumed that the scale of wages, whether time-rates or piece-rates, should vary as profits. Relative profits over the industrial field as a whole direct the relative demands for labour, and according to these (other things being equal) the wages in different industries rise and fall. Therefore to regulate wages by profits, it is argued, is to bring about rationally that which would result naturally. Now the principle of profit-sharing, thus stated, tells us very little. We must ask further :—

1. What exactly is the nature of the profits to be shared, for “profits” may mean many things ?
2. Should they be the profits of the past, present or future ?
3. How can the most desirable rate of variation of wages with profits be settled beforehand ?
4. Over what period shall the profits be measured, and how can they be measured at all ?
5. Further, may not the existing wage, or even a lower wage, be assumed by employers in fixing prices for the future, and so an unnaturally low wage become fixed ?
6. How frequently should changes in the rates of wages take place ?

Let us attempt to answer each of these questions in turn ; and in doing so let us remember that while the defect of mere “practice” is that it can only state the effect of things as a whole and as a rule, on empirical grounds, the defect of mere “theory” is that while it can indicate the tendency of an abstracted part of a total movement it cannot state precisely how much weight should be attached to the tendency in forming a practical judgment.

1. Now it is obvious that, if we are dealing with wages in a whole industry and not with the profit-sharing schemes of

particular firms, and profits are to be made the measure of wages, some kind of "normal profits" must be intended unless our aim is to alter long-period competitive results; since competition would always prevent the operative from sharing in any exceptional normal profits, except in so far as they depended on the length of service of the hands, their good-will and exceptional efficiency. Moreover, under the present organisation of industry, it is desirable that the employer should be held responsible for a normal success and that the inefficient should be removed by losses which they cannot shift on to their employés—unless, indeed, the connection between the various factors in any business is very close as in labour co-partnership concerns. To the profits which are of the nature of a rent of ability the operatives can make no claim, for it may be taken as fundamental in our present social system that those doing equal work with equal efficiency must receive the same pay. Normal profits, then, are to be taken as the regulator of wages, in the majority of cases, if anything is to be taken as the regulator.

2. But the normal profits when? This question raises a consideration of fundamental importance. It is commonly assumed that the normal profits shown by an examination of some period *just past* should be taken as the regulator of wages *in the future* though no demonstration is needed to convince us that it is by no means these normal profits always which are causing variations in the demands for labour. Expectation, anticipation of future wants, is coming to play an increasing part in industrial activities, and the thoughtless increasing of production because of high profits just made, and the timid contraction of businesses because of bad prices just suffered, are getting to be less and less a feature of modern commerce. Why then should wages automatically fall when the leaders of industry have cast their eyes over the future and proclaimed the need of an enlarged output and more hands? or why should wages rise when employers see that good trade is behind and are preparing for a period of marking time? Indeed, any indissoluble connection between the past in profits and the future in wages might operate in making constant one of the chief forces which bring about the cycles of trade; for one of the chief forces is the uncritical attitude of mind which causes a man to be guided in the future entirely by what he has just experienced. Of course it may be pointed out that advances or reductions given under the sliding-scale may be regarded as payments of arrears or returns of discounts; but this overlooks

the fact that high wages act as magnets on labour, and also the fact that the payment of some of the arrears may be escaped by reducing hands or working short time. It is true that, after all, these monthly or quarterly oscillations are of small importance compared with larger movements, and that the latter will show themselves through sliding-scales after a delay of not more than the period intervening between two settlements of wages (usually from a month to four months) at most; but, while it is true that the big movement will show itself, it can only show itself in wages, let us clearly recognise, with a predetermined intensity not necessarily, in spite of the foresight of employers, with the intensity for which the situation may call. Moreover, is it not a fact that there are circumstances under which an industry would naturally expand and wages rise though the prices of the output—even the rate of profits—might show no upward movement? Here let us emphasise once again that the rate of wages is not merely a matter of fair “distribution,” as it is so constantly in danger of being popularly regarded, but a matter also of what is desirable for the relative scale of future production in each industry.

3. Under this head we strike at once the key-note of a group of fundamental objections to the large claims which have sometimes been advanced for the system of a more or less automatic regulation of wages by normal profits. Some people seem to think that a scale of variations of wages with profits might be drawn up and accepted, if not for ever, at any rate for a long time. Now observe, firstly, that when the scale is drawn up admittedly bargaining takes place. There is no group of indisputable premises on earth from which the ratio which wages should bear to various rates of profit in different businesses could be deduced. What settles the ratios is bargaining; what settles the forces at work in bargaining are the relative strengths of masters and men (which are variable), the state of trade at the time and in the past, and the expected state of trade in the future (again variables). The aspirations of labour prevent it from accepting as moderately permanent what it soon regards as insufficient: the apprehensions, or sanguine hopes, of masters sensitive to industrial changes prevent them from adhering to a scale of wages, which, almost as soon as it is made, may fail to express, to their minds, the needs of the industry. Hence incessant revisions of the scales; hence the spontaneous advances which have been made independent of the scale. No, so long as society grows and changes and does not repeat itself like a machine, so long a perfect rationally determined

scale of variations of wages with profits will be impossible. If sliding scales of a satisfactory character can be constructed they must be definitely recognised as merely temporary agreements. They do not take the place of bargains, but merely mean that a heap of bargains is made at once, many of them before data exist to enable a wise conclusion to be reached. Moreover, many of the bargains would never otherwise be made. And it goes without saying that the more sliding scales are revised the more they lose in authority and the less do they exhibit that simple automatic character which has been one of their greatest charms. Further, when they are not frequently revised they acquire a fictitious authority which saps the life of the processes of distribution, and, as it has been complained more than once, weakens trade unions. And, further, they are said to weaken the unions for this reason also, that, if they are made irrevocable for long periods, attempts on the part of the men to better their position are only possible at fixed and infrequent times, which may not happen to coincide with the times most favourable for an exhibition of force. Consequently, if the employés decide upon attempting to raise the level of their wages as compared with profits, they must repudiate the sliding-scale first, and then watch their opportunity.

4. Let us now pass on to some structural difficulties not already dealt with. How shall profits be measured? Firstly, one might ask, Over what period shall they be measured? and the only answer is, Over some period agreed upon as "fair," *i.e.*, an answer which asks the question anew. Secondly, we have to inquire, How is one to get at the normal profits in any period? and the answer takes the form of telling us that accurately we cannot. They may be taken to vary as the prices of the output in some cases (*e.g.*, the prices of some kind, or kinds, of coal), or as the differences between the prices of the output and raw material (so-called "margins") in others. But calculations on these assumptions cannot give accurate results, since the products are many (there are many qualities of coal for instance) and some must be left out, and the relative importance of the others would need determining, and since, moreover, the cost of instruments and so forth is omitted. Simple sliding-scales, then, such as have been in operation, do not give accurate indications of profits for these reasons, though they may (so far as these points are concerned) give very fair approximations. Again, what prices exactly should be taken? Should they be market prices, *i.e.*, normal prices? If so, these are only

discoverable in highly developed markets, and sliding-scales on such a basis, therefore, could not have a very wide application. They might, indeed, be the prices taken from employers' books; but—assuming that employers will freely open their books, as they have done in all cases in which sliding-scales have been adopted—the prices revealed by them need not always be normal. Then, again, present prices do not indicate present profits because of contracts, the buying of raw material in the future on present quotations, and the existence of stocks. Herein is to be found one cause of friction in the past. The men have seen prices rising and the accountants have declared that profits have fallen perhaps, and the men have regarded themselves as robbed because they did not secure the rise which in all probability they would have received had there been no sliding-scales. Moreover, they may see wages rising all round. Hence the men's complaint that sliding-scales always slide the wrong way. They get their compensations, of course, but they seem to forget them, and the compensations correspondingly aggravate the masters. It must be added, further, that no other obvious way of reading profits has been discovered. The dividends paid by joint stock companies are patently untrustworthy and vary with the management and other causes, and there is not in all cases a sufficiency of companies to afford even an "average basis," which again, is not necessarily a "normal basis."

If the contention of a previous section is correct, namely, that it is anticipated profits which are playing a progressively larger part in the natural determination of wages, it might be thought that in contracts a measure of these could be found. The suggestion is plausible, but contract prices vary with the length of the contract and numerous other circumstances, and any calculation from them would prove impracticably complicated and contentious.

Under this head it is convenient to discuss another point to which some weight must be attached. Though prices should remain constant, and even "margins," profits would rise with the progress of civilisation, since the manufacturing cost of production steadily falls. This means that the only possible measures of profits (namely, the prices of the product or "margins") cannot touch one element in their increase, and, therefore, that no provision in the sliding-scales can be made to insure that the workman shall not miss one element of his share in the product. Hence, at revisions of the scales, the workmen, merely to maintain their old position, may have to press

for a standard which gives a higher ratio of wages to prices or "margins," and this creates a bad impression. They present the appearance of being grasping when they are nothing of the kind, though, to secure what the scale pretends to give, they have to ask for more. Public opinion cannot be expected to appreciate these subtleties, and public opinion has an influence.

5. The colliers complained, again, that when wages were down, and under ordinary circumstances the men could have forced a rise, the coal owners kept them down by taking large orders at low prices for far into the future, because wages were low. Hence the clause adopted in 1892 in South Wales that "any contract for sale of coal for a period of more than twelve months shall not be taken into account for more than six successive audits of two months each." Two points are really raised under this head which must be kept distinct: the one that the men may have to go on for a long time paying the penalty of the masters' mistakes; the other, which has no connection at all with contracts, that employers under certain circumstances might continue selling at lower prices than they would be prepared to accept if no sliding-scale were in operation, because they know that wages cannot rise without prices rising. The first contention, for which there is a good ground (since a coal owner in making a long contract would feel that his risk was less if he paid wages under a sliding-scale which enabled him to shift some of the possible loss on to labour), has caused attempts to check the employers' power of involving their men for a very considerable time in the results of their bad bargains. The success of such attempts, of course, means that the men sacrifice some of their share in exceptionally good bargains, though they do not appear to be aware of the fact. The second contention asserts that it may pay the masters to keep prices and wages down; but in this statement there appears to be a lurking fallacy. Without entering into the question in minute detail we may observe that for the output at the low price there must be a sufficiency of hands, as otherwise employers would raise prices (and so wages) until the estimated output from the mass of labour, increased through the attraction of the higher wage, equalled the amount of coal taken at such a price. If prices are not raised then higher prices would mean that the diminished output required would not fully occupy the existing hands. That is, the circumstances are not such as would lead naturally to a rise in wages. But, it may be replied, it might pay employers to sell a more than normal quantity at a low price rather than a small

quantity at a high price; to which the obvious retort immediately suggests itself that this involves lowering wages and yet increasing hands, that is, conditions of affairs which could not occur in the open market—though it could occur if miners' wages were abnormally high when compared with those in other industries, and perhaps it may have occurred. It is conceivable then, that a sliding-scale might be so constructed as to enable employers to pull down wages after they had been laboriously forced up; but the men could get this corrected, by insisting on the wages corresponding to the lower prices being raised, just as easily as they could secure such relatively high wages when prices fell under circumstances such that no sliding-scale stood in their way, other things being equal. My point here is not that the men ought to act in this way, but that, as they could, the particular contention stated at the beginning of this section, in so far as it is intended to prove that the operatives must be unable to maintain as high a level of wages under a sliding-scale as in its absence, is without foundation. The men are really impatiently anxious for the masters to force prices up somehow—as they easily can for a time when they are combined—but they do not seem to recognise fully the reaction of prices on the output, though they may have learnt too well by now the action of the output on prices. The emphasis of the prices of the product as the irrevocable determinant of wages has led to “stop-days” in South Wales (and therefore to an increased risk in putting capital into coal mining and consequently to lower wages in the long run), and probably to some secret checking of the output with the object of raising the price. Moreover, with the Birmingham attempt in the bedstead trade to make a strong combination of masters and men against the consumers still fresh in our minds, we cannot regard without anxiety any influence which induces workmen to regard mere high prices as a matter of fundamental importance.

6. Lastly how frequently shall changes in wages be made? It depends upon what is good for the men and what is good for the progress of the industry as a whole. Some people seem to think that the variations of wages and profits should be made to correspond as closely as possible on the ground that otherwise the men are defrauded of a rightful share in profits. They overlook that, under ordinary circumstances, if employes lose through missing weekly or monthly parings from profits, they gain in not suffering weekly or monthly parings from wages. Whether wages vary frequently or not, the average in the long

run will tend to be the same. The question is not essentially one of more or less wages, but whether very variable or fairly steady wages are best: and, observe, the more frequent variations are made the closer are big variations in profits reflected in wages. Upon this question Professor Schmoller holds views which are diametrically opposed to those which have been most popular in England in the past; he says, "Only the propertied classes and some workmen with large reserves can endure such big variations" (as sliding-scales have given). "The ordinary workman is in a better position if wages vary less, if in any case they fall as seldom and as little as possible below the amount which is sufficient to maintain the workman's standard of living and is adapted to it. Hence, of late years the stubborn and deliberately planned battle in England for 'the living wage,' and the agitation for the recognition of the 'minimum wage,' to the payment of which numerous central and local governing bodies have already pledged themselves."¹ It may be argued that there is far more chance of a somewhat steady wage which varies infrequently, and by small amounts only, contributing to build up a sensible and well-devised standard of life, than a wage given to sudden and considerable alterations. There is a great deal in the view that for taking the first steps in spending well it is essential that the income should be approximately a constant one, since it is only by repeated trial that the form of consumption most suitable to the income is arrived at. A wage oscillating between wide limits leads frequently to something over the minimum being taken as the normal weekly wage, to excesses being wasted and proving sometimes positively harmful, to deficiencies being met by debts and the pawn-shop, and saving being effected where a reduced consumption can be least afforded. Moreover, against a close correspondence of profits and wages, it can be argued that it is the work of employers and commercial men to anticipate so that the fluctuations in industry need not be great. These fluctuations, therefore, as opposed to the ups and downs over long periods—but how shall the line between them be drawn?—should be borne by employers on the principle of rewarding each man according to his work. It is of importance that those responsible for certain tasks should be saddled with the financial results.

Here the case against the sliding-scales terminates, and it seems obvious that to stop here is to assume an inconceivable simplicity in the advocates of what after all has been one of the

¹ Die historische Lohnbewegung von 1300—1900, und ihre Ursachen. 1902.

most striking experiments of the century in methods of distribution. Moreover, it would be to shut our eyes to facts; for sliding-scales have succeeded—succeeded in doing that for which they were chiefly proposed, namely, in making the process of distribution more peaceful. Indeed, all the foregoing argument, if it be taken to demonstrate the absurdity of sliding-scales, commits the fallacy of supposing that all men are perfectly rational. And it was just because all men were not perfectly rational, because of defects in understanding, temper and sympathy, in employers and employed, that the natural process of distribution kept breaking out into open rupture, and that a method by which it was checked in some degree proved advantageous to both, in spite of (or rather, because of) its artificial and rigid character. Though theoretically indefensible in a large degree, the sliding-scale succeeded where other plans had failed. Bargaining, particularly in matters of wages, without quarelling, implies a higher degree of civilisation than we are wont to suppose. And the quarrelling as a rule hurt both parties. The men would seek to snatch an unfair advantage when masters were on their way to recoup in rising markets losses just sustained, while the masters would not be backward in retaliating or setting the example. So the strike became a sword of Damocles and a heavy risk to be insured against, especially as it threatened most when it could damage most. Here alone was a cause for falling wages, quite apart from the actual losses inflicted by strikes, since the payments for insurance against risks had to be found somewhere. It was better, then, to guess before the event and to agree to pay, whatever happened, what would probably be unsuitable wages, than to try to arrive at suitable wages through the extravagant contending claims put forward by heated disputants not only at the “natural” times for redistribution but at inconvenient times which recurred with inconvenient frequency. And the sliding-scales had the merit of emphasising the right principle of distribution in the rough. Sliding-scales would act if only the men were less impatient, an authority has said. That statement might be supplemented by one equally true, namely, that sliding-scales have acted because the men and the masters were impatient.

Then do we go too far in arguing that the disappearance of the sliding-scales may be a very healthy sign? For there is nothing in the nature of things to prevent the settlement of wages from becoming as natural and peaceful a process as that through which prices are determined. It is for practical men to say whether their

disappearance is premature. That sliding-scales are losing their hold to-day is no proof that they were undesirable in the years just past; any more than the repeal of the Navigation Acts is a proof of the ignorance of seventeenth century statesmen. And it must not be forgotten that the sliding-scales leave behind them the machinery by which they were made and used, namely the joint boards. These may be used for the natural settlement of wages now that masters and men have learnt by serving upon them to argue without quarrelling and to dispute with less acrimony. Whether joint boards, supplemented by organised conciliation, are at last sufficient to bring about agreements as to wages without increasing strikes and lock-outs, it is for the future to show.

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