Wage Rates as Related to the AP and MP of Labor
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Wage Rates as Related to the AP and MP of Labor

Wage rates are independent of the AP of labor. Competition among workers brings wage rates into rough equality on different lands and with different capital complements, regardless of APs which may differ extremely. To say or act otherwise is a Fallacy of Arrogation -- to misapply the proper gain imputable to the fixed factor to the credit of the variable labor.

Syndicalism, for example, the brand of Communism recently practised in Yugoslavia, falls into this Fallacy. Believing that "Labor Produces all Value" the Syndicalists socialized all ownership gains at the plant level. The result is that workers in plants with rich resources enjoy permanent incomes higher than those with marginal resources. China has had a somewhat parallel experience.

Likewise, the TRK (True Return on Capital) is independent of the AP of capital. Managers are not likely to overlook deducting wages and other explicit costs in reckoning TRK because they are used to using the important concept of "cash flow" to impute to the capital outlay which "causes" it, and cash flow is net of wage bills. It is those invisible costs of other, older owned assets which they may forget to deduct: the gains to fixed factors. This variation of the Fallacy of Arrogation is habitually used by managements of old public corporations seeking to put their performances in the best light.

Competition among investors will naturally bring TRKs into rough equality among different firms. Owing to the bias against lending to marginal firms and for marginal purposes, in fact, competition leaves TRKs substantially higher among the weak marginal firms than among the old giants with large piles of accumulated assets. The tendency to plow back earnings into the same firm that earned them aggravates this tendency. The generic name for this bias is "internalizing rents." When the old giants invest new capital for apparent high returns we may suspect there is some Fallacy of Arrogation at work.

The effect of increased population is increased labor supply. New jobs are made by squeezing new people into the margin of production, intensive or extensive. It is pried open by raising prices relative to wage rates -- a fall of real wage rates. So long as we stick with traditional products and technologies this augurs poorly for labor without property. It lowers ep and raises the gain of the fixed land factor, both per acre and per worker. This is the Malthusian specter on which classical distributive theory was built.

The ultimate effects depend on how landholders and investors react to the increased opportunities, however, and may not be so bad as Malthus feared. New opportunities arise for higher volume uses of land. Farmers may shift from cattle to small grains to

dairy to vines to labor-intensive produce, as some of them have in California. As landholders intensify, ep rises and labor's share of total output rises even as net gains per acre also rise.

More important, in a well organized society new frontiers arise from the effects of social synergy, mainly in cities. Urban lands have shown an enormous capacity to absorb labor in manufacturing, trade and services. In an intellectual society demands develop for much more labor-using or "downstream" (near the consumer) activities like entertainment, medicine and learning. Feeding hogs isn't everything, (even if some of us enjoy getting back to it after a time indoors at the office).

But the landholder who chooses to go high volume and low unit gain is choosing a peck of trouble, too. He may not want to leave the old quiet life behind. We used to have the property tax to nudge him along. Now that Mr. Jarvis has cut that by 2/3 we may wish we had something else to perform the same function.

The effect of increased capital in a country is to compete down interest rates and TRKs. We have noted that an individual coming into more money is as likely to buy more land as to apply more capital per acre, but in a whole country there is only so much land. So marginal TRKs fall, just as wage rates do in response to more labor. Land is improved more intensively and the net gain to land rises, both per acre and per unit of capital.

Landholders gain doubly from this. Their income rises, and in addition it is capitalized at a lower rate, thus doubly raising land prices.

The combination creates pressure to invade the extensive margin of production, to "push on the frontiers." Extending spatial frontiers is extremely capital-using and can soak up almost any surplus of capital with ease - so much ease, indeed, that territorial expansion usually leads to a capital shortage.

Will increased supply of capital help or hinder the land to absorb the increased supply of labor, assuming they increase together (as they have done)? That depends on how the capital is used. Capital may displace labor and complement land. Sheep, cattle, trees, farm machines and industrial robots do that. But capital may also substitute for land and complement labor. Skyscrapers and landfills obviously do that, and much other capital does so less obviously. Working capital like the farmer's seeds and the manufacturer's raw materials are especially important for labor (although within limits these may also substitute).

Somewhere in this there must lie a key to combatting unemployment and the condition of chronic labor surplus that dogs every college graduate entering the labor market. In our times Federal policy has tried two major solutions. One is demand

management, now passed from favor. Now it is "supply side" economics.

Many of us who have long yearned for something like that are disappointed in what we are getting. All the emphasis in Washington is on increasing the supply of capital -- an argument used mainly to rationalize lowering taxes on property and property income of all kinds. A true and workable supply side policy would put more emphasis on measures to intensify the use of the land and the capital which we already have. It would raise epsilon. It would foster higher volume and lower unit gains. For further details, consult your local macro-economists.