in Germany and France, is worthy of careful consideration (1). I am aware that this method presents difficulties and is likely to meet with some opposition. It does, however, avoid the anomaly of a flat-rate minimum which allows for a host of fictitious families and which, while related to a hypothetical family, does not, in fact, differ in accordance with different needs. To determine what the basic rate rate should be, and what the scale of family allowance, is beyond the scope of this memorandum.

The concept " what industry can afford to pay " is even more vague and ill-defined than the concept of the " standard of living." Unless related to some objective standard, the adoption of the principle presents possibilities not less undesirable than fixing a rigid " cost-of-living standard " which industry cannot afford. If merely left as an abstract principle, it places a premium on inefficiency; for demands for wage-reduction will come from businesses on the margin which will be able to demonstrate that wages are too high for *them* to make a profit, even though reasonably efficient firms may be able to pay standard rates.

(*e*) *Necessity for an Objective Standard of " Capacity to Pay."*—It seems to me, therefore, that a careful inquiry should be made by experts as to the possibility of instituting an objective standard in the nature of an index number, to which the standard wage above the minimum should be related. This will be a difficult task not accomplished in a few days, especially as it may be found expedient to adopt different methods for different industries. In some, the method adopted in the coal industry in the United Kingdom might be found applicable, the wages in a given period being fixed in accordance with the " net proceeds " of a previous period, these net proceeds being distributed in agreed proportions after costs, minimum wages, and an agreed rate of profits have been subtracted from the gross proceeds(2). In others, the objective standard might be related to prices. The problem is admittedly difficult, and may be incapable of solution; but the alternatives are: either standard rates varying in accordance with the cost of living, or in accordance with the vague concept of " what industry can afford to pay "; or a combination of these.

Those who attack the method of determining wage-awards in accordance with the cost of living have not, as yet, offered any alternative principles other than the " capacity to pay " principle, and the onus is on them to offer a definite interpretation of the term " capacity to pay."

(*f*) *Piece Rates.*—The related problem of piece rates as a means of equating remuneration to the amount of work done is set down on the agenda for consideration. The advantages of piece rates are very much inclined to be exaggerated. It should be noted in the first place that the application of the system of piece-rate payment is largely limited in scope to those industries where the product and methods of work are closely standardized, where the quantity of output is likely to be proportionate to the effort of the worker; and where quality and quantity can be easily measured.

The limitations and dangers of piece rates are discussed by many economists of repute. It will suffice to quote an excellent summary by Professor B. E. Murphy, of Victoria College :—

" The defect of time rates is that the worker has no special incentive to increase output, his reward being independent of the volume of work accomplished. The defect of the piece system is exactly the opposite—that the worker is induced to overexertion, to the detriment of his health and the product which he turns out.

" Under time rates the worker sees to the quality of the output, and the foreman to its quantity; whereas under piece rates the position is reversed, the worker being mainly interested in quantity and the foreman in quality. Piece rates are normally resisted by labour, being regarded as a mere speeding-up device, it being stated that, a schedule of piece rates having been settled, when the men by extra exertion come to earn under piece rates a larger remuneration than has hitherto been traditional, the employers thereupon cut the rate, leaving the men, in spite of their greater exertion and output, at the old-money wage. There is no doubt that this complaint has been substantially justified in the past, apart altogether from necessary changes in piece rates due to alterations in industrial technique and the introduction of new methods and machinery. In big progressive firms, however, there is now little room for complaint in this direction, the employers very wisely seeing that, provided the piece rates are scientifically and equitably fixed, the greater the amount the men are able to earn under them, the better for the employer.

" Apart from general considerations of this character, there are a number of technical objections to the piece-rate system :—

" (i) Piece work and team work are fundamentally incompatible. To a greater or less extent all industrial groups function as a unit, and it is not possible to delimit with precision the share in aggregate productivity attributable to each individual, nor is there any feasible method of allowing fairly for the different degrees of assistance of hindrance which each worker receives from the management, from stoppages of power, break-down in machinery, rate of work of others on whom the speed of the individual is dependent, and generally for environmental factors, such, for example, as an unfavourable ' face ' in a mine.

" (ii) It is incompatible with the spirit of craftmanship, and fosters shoddy and scamped work.

" (iii) By continuously emphasizing the points at which the interests of the individual worker are at variance with those of other workers and of the employer, it increases the difficulties of collective bargaining by failing to promote a good spirit in industrial relations.

" (iv) It can make no direct allowance for such invaluable qualities as punctuality, regularity of time-keeping, skill as apart from mere speed, care of machine and tools, co-ordination and adjustment

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(1) The method developed in these countries may be described as " family allowance by industry " rather than " family allowance by the State." The total wages pool need not differ from the total pool under a flat-wage system, but to avoid discrimination against married men, the same minimum rate would be paid to all, married workers thus receiving the family allowance from the common pool. (See Rathbone, " The Disinherited Family," and " Ethics and Economics of Family Endowment."

(2) See Report of the Royal Commission on the Coal Industry (1925).