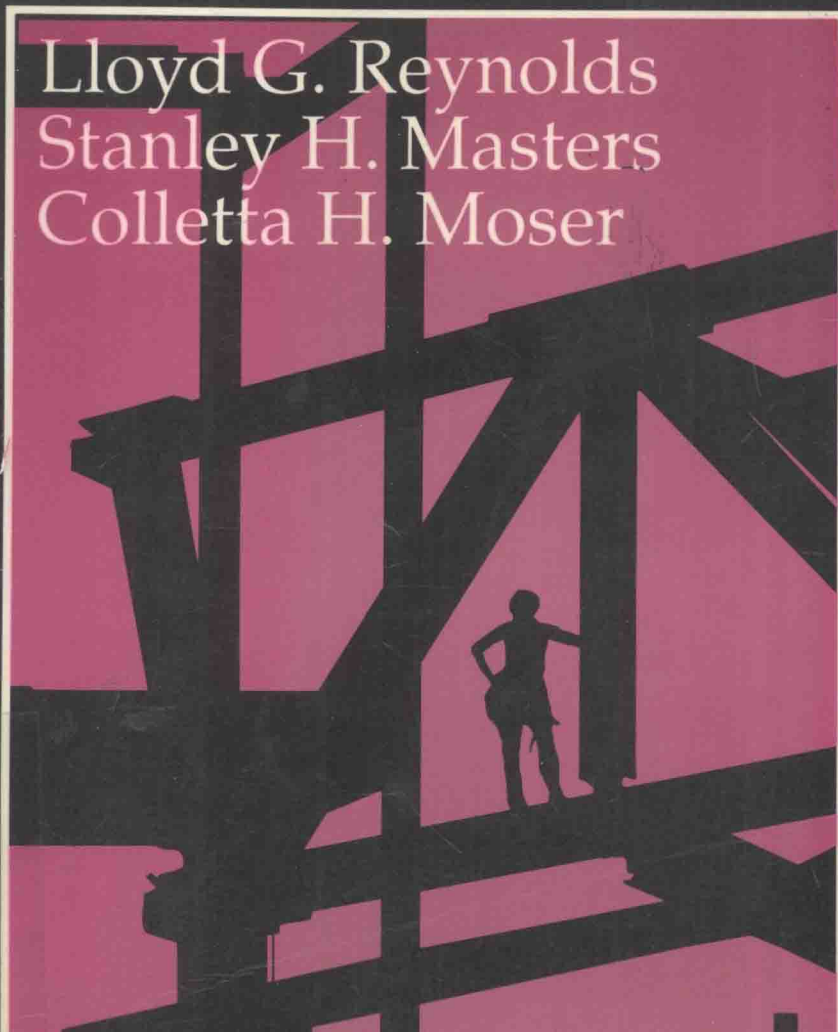


READINGS IN

Labor Economics & Labor Relations

FIFTH
EDITION

Lloyd G. Reynolds
Stanley H. Masters
Colletta H. Moser



READINGS IN

LABOR ECONOMICS

AND

LABOR RELATIONS

Fifth Edition

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PREFACE

The literature of labor economics is rich and varied. In the past, graduate students generally were exposed to this literature, gaining a sense of its historical development, the controversies in the field, and the frontiers of current research. In recent years, the literature has become increasingly specialized and technical so that broad exposure for students is less frequent. The undergraduate usually has access to original literature only indirectly through a textbook, in which knowledge about labor economics necessarily appears more authoritative than it actually is.

Because we believe that students can benefit by reading the original works of leading scholars in labor economics and industrial relations, we have tried to assemble as rich a menu as possible. The general organization follows that of *Labor Economics and Labor Relations*,¹ but the readings in this volume could form a useful supplement to any labor text.

In addition to setting high-quality standards, we have sought to include selections that would achieve a balanced coverage of both labor economics and industrial relations and of the important topics within each area. We have also attempted to represent different points of view on major issues.

Two other editorial principles have governed the content of the book. First, we have edited selections to avoid unnecessary mathematical equations and technical arguments. On the other hand, we have retained fairly long excerpts where they are needed to give the full flavor of the author's thought.

In making revisions for this edition, our primary objective has been to add selections that reflect recent developments in the field of labor economics. New units have been added on changing labor markets and on wages, jobs, and welfare. In addition, major changes have been made in the sections on unemployment, equal employment opportunity, and collective bargaining. More than half of the articles are new selections for this edition.

Lloyd G. Reynolds
Stanley H. Masters
Colletta H. Moser

¹Reynolds, Masters, Moser, *Labor Economics and Labor Relations*, Tenth Edition (Englewood Cliffs, N.J.: Prentice Hall, 1991).

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LABOR ECONOMICS
AND
LABOR RELATIONS**

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LABOR MARKET THEORY AND PRACTICE

The operation of markets, in which buyers and sellers exchange commodities or services at a price, is central to the study of economics. The hiring of labor at a specified price (wage rate) is a market transaction. Economists have always recognized, however, that a worker selling labor is in a position far different from a shoe merchant selling shoes.

One difference is that the worker delivers himself or herself as part of the bargain. So, in choosing among occupations, the agreeableness or disagreeableness of the work is an important consideration. The worker will also consider such things as the cost of training for the occupation, the chances of success in it, and the regularity of employment. Given full information and freedom of choice, the market will operate to equalize not the wage rate for different occupations, but the occupations' total attractiveness to workers on the margin of decision. Jobs that cost much to learn, involve disagreeable work, or offer only irregular employment will pay a higher wage to offset these disadvantages.

These principles were first stated two hundred years ago in Adam Smith's *Wealth of Nations*. It is a mark of Smith's genius that later writers have not been able to improve very much on his original statement. We should note also that Smith recognized the important restrictions on free choice that existed in his day, which prevented the market from equalizing the advantages of different occupations.

Alfred Marshall, the great Cambridge University economist of the period 1880–1920, analyzed labor markets in a way that, while consistent with Smith, goes beyond him in several respects. He noted, first, that workers differ in efficiency. Thus, a competitive labor market will not equalize the wage rates of workers in the same occupation, but rather will equalize the ratio of their wage rates to their efficiency—what Marshall termed their *efficiency earnings*. He then proceeded to explore several “peculiarities” in the operation of labor markets. Of these, the most interesting are:

1. Parents who invest in the education and training of their children do not receive the future monetary rewards. Parents in the lower occupational grades, he thought, will have neither the resources nor the foresight to invest much in training; this is an important factor perpetuating inequality from generation to generation.
2. Workers are under greater pressure than employers to conclude an employment bargain quickly because they must have income to live. This fact, Marshall believed, placed them at a bargaining disadvantage and tended to drive down wages. This provides an argument for trade union organizations to “equalize bargaining power.”
3. Since training for the higher occupations takes a long time, supply responds only slowly to changes in earnings. Thus, at any moment the market for such occupations is likely to be out of equilibrium. The “long run,” in which competition would equalize the total attractiveness of occupations, must be interpreted as a long period of calendar time.

In recent years, labor economists have devoted much attention to the effect of human capital on wage rates. Investments in human capital are costs incurred to increase future earnings and productivity by such means as improving health, education, and training. The theory of human capital is developed in the selection from Gary Becker’s pioneering book, *Human Capital—A Theoretical and Empirical Analysis*.

An investment in human capital usually requires an investment of a worker’s time. Economics used to be concerned mainly with the allocation of scarce physical resources. Now labor economists also emphasize time allocation decisions. Many such decisions are made in a family context. Partly for this reason, labor economists have begun to study the family as an economic unit. Isabel Sawhill discusses both the strengths and the weaknesses of how economists analyze such topics as marriage, divorce, fertility, child rearing, and sex roles.

Economics emphasizes the role of individuals and of individual choice. But, as Lester Thurow argues, for most of us, belonging to a group is also very important. Partly for this reason, most firms need to develop a sense of group identification, loyalty, and teamwork in order to be successful. Similarly, labor economists need to see workers not simply as maximizing utility through consumption and leisure. Instead, we need to be aware that workers are concerned not only with wage rates and job security but also with their status within the workgroup, the position of their workgroup within the firm, and the prestige of the firm within the larger community. In Thurow’s words:

Work does not deprive us of leisure—it offers us an opportunity to gain power, exercise leadership, have status, develop our creativity, and enjoy the security of belonging to a group with a common purpose. Motivation is not something necessary to overcome the fundamental disutility of work, but the presence or absence of the *esprit de corps* necessary for any army to tap all of the abilities and energies of its members.

Nonmarket forces may be more important in the market for labor than many other markets, in part because information and mobility are often more limited in the labor

market. The information sources available to workers and employers can be divided into two channels: formal, such as local offices of the state employment service, and informal, such as tips from friends and relatives. Economists concerned with improvement of information have tended to urge greater use of formal channels. Albert Rees, on the basis of research in the Chicago labor market, points out that informal channels have certain advantages to both employers and workers and often work better than has been supposed. He suggests that formal information networks may be most useful for specialized managerial, professional, and technical jobs, where matching vacancies and applicants may require search over a wide geographical area.

Restrictions on free choice of occupation have concerned economists from Adam Smith to the present. Clark Kerr argues that, instead of the complete open market of pure competition, actual labor markets are highly compartmentalized ("Balkanized") by employer and union rules. In unionized craft occupations, entrance to the market occurs only via the union. In manufacturing industries, workers are hired from the outside only at a few "ports of entry" to the company. Most jobs are filled by promotion from inside—the "internal" labor market—with seniority the dominant principle. This channeling of labor mobility by institutional rules, Kerr argues, makes actual wage decisions quite different from those pictured in simple supply-demand models. Although these restrictions on mobility are viewed as market "imperfections" by some economists, they are quite consistent with the interest of most workers in job security.

Peter Doeringer and Michael Piore describe how the low-wage labor market functions and how it differs from other labor markets. In addition to lower pay, there are generally poorer working conditions, less job security, and little chance for promotion. Still, such a labor market serves the needs of some workers and firms.

For most workers, especially those in internal labor markets, job security is a major concern. For those who lose their jobs because of a declining demand for labor, some income protection is available through unemployment insurance. But what about workers who lose their jobs because of conflict with the employer rather than because of declining demand? Do employers have a legal right to fire any worker, subject only to the constraint of a union contract and to antidiscrimination legislation? As Jack Stieber indicates, in many states there is no legal protection for a worker who is discharged, even if the worker's employment is terminated for such extreme causes as refusing to break a law. Stieber argues that employees deserve statutory protection against unjust discharge by employers. Since 1983, the year in which Stieber wrote about employment-at-will, courts in some states, especially California, have placed additional restrictions on this doctrine. In 1987, Montana became the first state to pass legislation protecting workers from arbitrary dismissal.

In dismissing workers for cause, one of the important current issues is that of drug testing. Substance abuse, including alcohol as well as illegal drugs, is likely to lead to serious costs to firms with regard to productivity, quality control, safety, and medical costs. Yet drug testing is not very accurate, is an invasion of privacy, and may tell more about the employee's lifestyle than about his or her ability to perform on the job. Tia Schneider Denenberg discusses these issues, including the legal status of drug testing. She also analyzes how arbitrators decide grievances of union workers who have been dismissed because of positive drug tests. Denenberg argues for more emphasis on testing for job performance rather than for drug use per se and for peer pressure to persuade drug users to obtain evaluation and treatment, especially when their use of drugs is a threat to the safety of co-workers.

The Wealth of Nations

Adam Smith

Adam Smith, *The Wealth of Nations* (Edinburgh: Adam & Charles Black, 1853), first published in 1776.

Of Wages and Profits in the Different Employments of Labour and Stock

The whole of the advantages and disadvantages of the different employments of labour and stock must, in the same neighbourhood, be either perfectly equal or continually tending to equality. If in the same neighbourhood, there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments. This at least would be the case in a society where things were left to follow their natural course, where there was per-

fect liberty, and where every man was perfectly free both to choose what occupation he thought proper, and to change it as often as he thought proper. Every man's interest would prompt him to seek the advantageous and to shun the disadvantageous employment.

Pecuniary wages and profit indeed, are everywhere in Europe extremely different, according to the different employments of labour and stock. But this difference arises partly from certain circumstances in the employments themselves, which either really, or at least in the imaginations of men, make up for a small pecuniary gain in some, and counterbalance a great one in others; and partly from this policy of Europe, which nowhere leaves things at perfect liberty.

The particular consideration of those circumstances and of that policy will divide the chapter into two parts.

PART I

Inequalities Arising from the Nature of the Employments Themselves

The five following are the principal circumstances which, so far as I have been able to observe, make up for a small pecuniary gain in some employments, and counterbalance a great one in others: First, The agreeableness or disagreeableness of the employments themselves; Secondly, The easiness and cheapness, or the difficulty and expense of learning them; Thirdly, The constancy or inconstancy of employment in them; Fourthly, The small or great trust which must be reposed in those who exercise them; and Fifthly, The probability or improbability of success in them.

First, the wages of labour vary with the ease or hardship, the cleanliness or dirtiness, the honourableness or dishonourableness of the employment. Thus in most places take the year round, a journeyman tailor earns less than a journeyman weaver. His work is much easier. A journeyman weaver earns less than a journeyman smith. His work is not always easier, but it is much cleaner. A journeyman blacksmith, though an artificer, seldom earns so much in twelve hours as a collier, who is only a labourer, does in eight. His work is not quite so dirty, is less dangerous, and is carried on in day-light, and above ground. Honour makes a great part of the reward of all honourable professions. In point of pecuniary gain, all things considered, they are generally underrecompensed, as I shall endeavour to show by and by. Disgrace has the contrary effect. The trade of a butcher is a brutal and an odious business; but it is in most places more profitable than the greater part of common trades. The most

detestable of all employments, that of public executioner, is, in proportion to the quantity of work done, better paid than any common trade whatever....

Disagreeableness and disgrace affect the profits of stock in the same manner as the wages of labour. The keeper of an inn or tavern, who is never master of his own house, and who is exposed to the brutality of every drunkard, exercises neither a very agreeable nor a very creditable business. But there is scarce any common trade in which a small stock yields so great a profit.

Secondly, the wages of labour vary with the easiness and cheapness, or the difficulty and expense of learning the business.

When any expensive machine is erected, the extraordinary work to be performed by it before it is worn out, it must be expected, will replace the capital laid out by it, with at least the ordinary profits. A man educated at the expense of much labour and time to any of those employments which require extraordinary dexterity and skill, may be compared to one of those expensive machines. The work which he learns to perform, it must be expected over and above the usual wages of common labour, will replace to him the whole expense of his education, with at least the ordinary profits of an equally valuable capital. It must do this in a reasonable time, regard being had to the very uncertain duration of human life, in the same manner as to the more certain duration of the machine.

The difference between the wages of skilled labour and those of common labour is founded upon this principle....

Thirdly, the wages of labour, in different occupations vary with the constancy or inconstancy of employment.

Employment is much more constant in some trades than in others. In the greater part of manufacturers, a journeyman may be pretty sure of employment almost every day in the year that he is able to work. A mason or brick-

layer, on the contrary, can work neither in hard frost nor in foul weather, and his employment at all other times depends upon the occasional calls of his customers. He is liable, in consequence, to be frequently without any. What he earns, therefore, while he is employed, must not only maintain him while he is idle, but make him some compensation for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion. Where the computed earnings of the greater part of manufacturers, accordingly, are nearly upon a level with the day wages of common labourers, those of masons and bricklayers are generally from one half more to double those wages. Where common labourers earn four or five shillings a week, masons and bricklayers frequently earn seven and eight; where the former earn six, the latter often earn nine and ten; and where the former earn nine and ten, as in London, the latter commonly earn fifteen and eighteen. No species of skilled labour, however, seems more easy to learn than that of masons and bricklayers. Chairmen in London, during the summer season, are sometimes said to be employed as bricklayers. The high wages of those workmen, therefore, are not so much the recompense of their skill, as the compensation for the inconsistency of their employment.

A house carpenter seems to exercise rather a nicer and more ingenious trade than a mason. In most places, however, for it is not universally so, his day-wages are somewhat lower. His employment, though it depends much, does not depend so entirely upon the occasional calls of his customers; and it is not liable to be interrupted by the weather....

Fourthly, the wages of labour vary according to the small or great trust which must be reposed in the workmen.

The wages of goldsmiths and jewellers are everywhere superior to those of many other workmen, not only of equal, but of much superior ingenuity; on account of the precious materials with which they are intrusted.

We trust our health to the physician; our fortune, and sometimes our life and reputation, to the lawyer and attorney. Such confidence could not safely be reposed in people of a very mean or low condition. Their reward must be such, therefore, as may give them that rank in the society which so important a trust requires. The long time and the great expense which must be laid out in their education, when combined with this circumstance, necessarily enhance still further the price of their labour....

Fifthly, the wages of labour in different employments vary according to the probability or improbability of success in them.

The probability that any particular person shall ever be qualified for the employment to which he is educated, is very different in different occupations. In the greater part of mechanic trades, success is almost certain; but very uncertain in the liberal professions. Put your son apprentice to a shoemaker, there is little doubt of his learning to make a pair of shoes: but send him to study the law, it is at least twenty to one if ever he makes such proficiency as will enable him to live by the business. In a perfectly fair lottery, those who draw the prizes ought to gain all that is lost by those who draw the blanks. In a profession where twenty fail for one that succeeds, that one ought to gain all that should have been gained by the unsuccessful twenty. The counsellor at law who, perhaps, at near forty years of age, begins to make something by his profession, ought to receive the retribution, not only of his own so tedious and expensive education, but that of more than twenty others who are never likely to make any thing by it. How extravagant soever the fees of counsellors at law may sometimes appear, their real retribution is never equal to this....The lottery of the law, therefore, is very far from being a perfectly fair lottery; and that, as well as many other liberal and honourable professions, are, in point of pecuniary gain, evidently under-recompensed.

Those professions keep their level, however, with other occupations, and notwithstanding these discouragements, all the most generous and liberal spirits are eager to crowd into them. Two different causes contribute to recommend them. First, the desire of the reputation which attends upon superior excellence in any of them; and, secondly, the natural confidence which every man has, more or less, not only in his own abilities, but in his own good fortune.

To excel in any profession, in which but few arrive at mediocrity, is the most decisive mark of what is called genius or superior talents. The public admiration which attends upon such distinguished abilities, makes always a part of their reward; a greater or smaller in proportion as it is higher or lower in degree. It makes a considerable part of that reward in the profession of physic; a still greater perhaps in that of law; in poetry and philosophy it makes almost the whole....

The five circumstances above mentioned, though they occasion considerable inequalities in the wages of labour and profits of stock, occasion none in the whole of the advantages and disadvantages, real or imaginary, of the different employments of either. The nature of those circumstances is such, that they make up for a small pecuniary gain in some, and counterbalance great ones in others.

In order, however, that this equality may take place in the whole of their advantages or disadvantages, three things are requisite, even where there is the most perfect freedom. First, the employments must be well known and long established in the neighbourhood; secondly, they must be in their ordinary, or what may be called their natural state; and thirdly, they must be the sole or principal employments of those who occupy them.

First, this equality can take place only in those employments which are well known, and have been long established in the neighbourhood.

Where all other circumstances are equal, wages are generally higher in new than in old trades. When a projector attempts to establish a new manufacture, he must at first entice his workmen from other employments by higher wages than they can either earn in their own trades, or than the nature of his work would otherwise require, and a considerable time must pass away before he can venture to reduce them to the common level. Manufactures for which the demand arises altogether from fashion and fancy, are continually changing, and seldom last long enough to be considered as old established manufactures. Those, on the contrary, for which the demand arises chiefly from use or necessity, are less liable to change, and the same form or fabric may continue in demand for whole centuries together. The wages of labour, therefore, are likely to be higher in manufactures of the former, than in those of the latter kind. Birmingham deals chiefly in manufactures of the former kind; Sheffield in those of the latter; and the wages of labour in those two different places, are said to be suitable to this difference in the nature of their manufactures....

Secondly, this equality in the whole of advantages and disadvantages of the different employments of labour and stock, can take place only in the ordinary, or what may be called the natural, state of those employments.

The demand for almost every different species of labour is sometimes greater and sometimes less than usual. In the one case the advantages of the employment rise above, in the other they fall below the common level. The demand for country labour is greater at hay time and harvest than during the greater part of the year; and wages rise with the demand. In time of war, when forty or fifty thousand sailors are forced from the merchant service into that of the king, the demand for sailors on merchant ships necessarily rises with their scarcity; and their wages upon such occasions commonly rise from a guinea and seven