V.

THE DOCTRINE OF THE WAGE-FUND.

453. The Doctrine Stated.—In opening the subject of Wages, I passed by without discussion the once generally received doctrine—generally received, that is, in England and America—of a fund set apart for the payment of wages, and proceeded at once to state affirmatively the views I hold regarding the laborer's share in the product of industry.

Inasmuch, however, as the student will find this doctrine explicitly taught in the great majority of all the systematic treatises on the shelves of our libraries, it seems important that it should be dealt with critically.

The doctrine of a Wage-Fund is, in substance, as follows: There is, in any country, at any time, an amount of wealth set apart by economic forces for the payment of wages. The ratio between the aggregate capital and the portion thus devoted to the payment of wages, is not necessarily the same in different countries at the same time, or in the same country at different times. That ratio may vary with the conditions of industry and the habits of the people; but at any given time, the amount of the wage-fund, under the conditions existing, is determined in the amount of capital.* Were the amount of that capital greater, the wage-fund would be greater, and greater in precisely the same proportion. Were the amount of that capital smaller, the wage-fund would be smaller, and smaller in precisely the same proportion.

---

from a foreign parish, he was not permitted to do so unless he entered into a recognizance, often to a considerable amount, to the effect that the new-comer should not obtain a settlement, else the bond to be good against the employer. Parochial registers are full of such acknowledgments."

* "There is supposed to be, at any given instant, a sum of wealth which is unconditionally devoted to the payment of wages of labor. This sum is not regarded as unalterable, for it is augmented by saving and increases with the progress of wealth; but it is reasoned upon as, at any given moment, a predetermined amount."—*J. S. Mill: The Fortnightly. May*, 1869.

The wage-fund, therefore, may be greater or less at another time; but at the time taken, it is definite. The amount of it can not be increased by force of law, or of public opinion, or through sympathy and compassion on the part of employers, or as the result of appeals or efforts on the part of the working classes.*

The sum so destined to the payment of wages is distributed by competition. If one obtains more, another must, for that reason, receive less, or be kept out of employment. Laborers are paid out of this sum, and out of this alone. The whole of it is distributed without loss, and the average amount received by each laborer is, therefore, determined precisely by the ratio existing between the wage-fund and the number of laborers, or, as some writers have preferred to call it, between capital and population.†

The wage-fund, at any given time, being thus determined, the rate of wages will be according to the number of persons then applying for employment.‡ If these be more, wages will be low; if these be fewer, wages will be high.

It thus appears that the wage-fund—the aggregate amount

---

* "That which pays for labor in every country is a certain portion of actually accumulated capital, which can not be increased by the proposed action of government, nor by the influence of public opinion, nor by combinations among the workmen themselves. There is, also, in every country, a certain number of laborers, and this number can not be diminished by the proposed action of government, nor by public opinion, nor by combinations among themselves. There is to be a division now, among all these laborers, of the portion of capital actually there present." —*Prof. A. L. Perry, Pol. Econ.* In the later editions of his treatise, Prof. Perry modifies his statement.

† "The circulating capital of a country is its wage-fund. Hence, if we desire to calculate the average money wages received by each laborer, we have simply to divide the amount of this capital by the number of the laboring population."—*Prof. H. Fawcett: The Economic Position of the British Laborer.*

‡ "More than that amount (the wage-fund), it is assumed, the wages-receiving class can not possibly divide among them; that amount, and no less, they can not but obtain: so that, the sum to be divided being fixed, the wages of each depend solely on the divisor, the number of participants.—*J. S. Mill: The Fortnightly. May*, 1869.

to be distributed as wages—is, at any given time, irrespective alike of the number and of the industrial quality of the wages class. The average rate of wages is determined exclusively by a comparison of the amount of that fund with the number of that class. The industrial quality of the laborers has nothing to do, at the time, with their wages.

454. The Doctrine Examined.—What shall we say of this doctrine of a Wage-Fund? Several objections may be urged against it, any one of which would be fatal.

First. The doctrine assumes that wages are always and necessarily paid out of capital, the results of past accumulation. As a matter of fact, wages in England, where this theory of wages originated, were, at one time, early in the century, paid, financially speaking, out of capital generally, if not universally. That condition of things has continued to the present time.

Why was this? Was it of the essence of the matter, or an accident?

I answer, wages were advanced by capital in England, because capital had there been accumulated to so great extent that employers were able to lay down the whole of the wages to be paid as soon as the service was rendered, even before the products were harvested or marketed, while, at the same time, wages were and had been so low that the laborers had been able to save little or nothing out of their earnings in the past, and were consequently obliged to look to their employers for subsistence, almost from the moment they began to work.

But during the same period a very different relation between laborer and employer, as regarded the payment of wages, existed in the United States. Employers were paying their laborers by the year, giving them their wages, in full, only when the crops were harvested or the goods marketed, making meanwhile such advances as their means allowed, or as were required by the varying wants of their workmen, no small part of whom had saved enough out of the liberal earnings of former years to support themselves and their families until the year's wages should be paid.

In other words, the *industrial* conditions were more favorable to the payment of wages in the United States, while in England the *financial* conditions were more favorable. But it is the industrial conditions which determine the amount of wages, the necessaries, comforts and luxuries which the laborer receives for his services. The financial conditions only determine the manner and time of payment, whether at once or on a future day, whether in money or in goods.

455. Wages may be advanced out of Capital, but are paid out of the Product.—But even if, in fact, all wages were laid down by the employer as soon as services were rendered, before the crops were harvested or the goods marketed, it would not follow that the existence of capital furnished the reason for the employment of labor, or that the amount of that capital furnished the measure of the wages to be paid.

An employer pays wages to purchase labor, not to expend a fund of which he may be in possession. He purchases labor, not because he wishes to keep it employed, but as a means to the production of wealth. He produces wealth, not for the sake of producing it, but with a view to a profit to himself, individually, in that production.

If a person have wealth, that, of itself, constitutes no reason why he should expend any portion of it on labor, on machinery, or on materials. It is only as he sees that he can increase that wealth through production, that the impulse to employ it in those directions is felt. But for the profits by which he hopes thus to increase his store, it would be alike easier and safer for him to keep his wealth at rest than to put it in motion for the benefit of others. The mere fact that the employer has capital at his command, no more constitutes a reason why he should use it in production, when he can get no profits, than the fact that the laborer has arms and legs constitutes a reason why he should work when he can get no wages.

We repeat: the employer purchases labor with a view to the product of labor. The kind and amount of that product determine what wages he can afford to pay. He must, in the long run, pay less than that product, less by a sum which is to

constitute his own profits. If the product is to be greater, he can afford to pay more ; if it is to be smaller, he must, for his own interest, pay less.

It is, then, for the sake of future production that the laborers are employed, not at all because the employer has possession of a fund which he must disburse. IT IS THE VALUE OF THE PRODUCT, SUCH AS IT IS LIKELY TO PROVE, WHICH DETERMINES THE AMOUNT OF THE WAGES THAT CAN BE PAID. Thus, it is production, not capital, which furnishes the motive for employment and the measure of wages.

In saying that production furnishes the measure of wages, it is, of course, not to be understood that wages equal the product of industry. The advocate of the wage-fund asserts that capital furnishes the measure of wages, meaning that the amount to be paid in wages is some part of the aggregate capital of the country, the ratio between the two varying from time to time, indeed, but being, for any given moment, fixed by the existing conditions of industry. So I say, production furnishes the measure of wages, meaning that the amount to be paid in wages is some part of the product of industry, the ratio between the two varying, probably, from time to time, from causes innumerable, but being, for any given moment, fixed by existing conditions.

456. No Wage-Fund Irrespective of the Industrial Quality of the Laborers.—But if production furnishes the measure of wages, the amount so to be paid can not be irrespective of the industrial quality of the laboring class. If we assume that upon a cultivated island are tools and carts and animals for draught, and other forms of capital adequate for a thousand laborers, the production will vary within a very wide range according to the industrial quality of the laborers using that capital. If we suppose them to be East Indians, we shall have a certain annual product; if we suppose Russian peasants to be substituted for East Indians, we shall have twice or three times that product; if we suppose Englishmen to be substituted for Russians, we shall have the product again multiplied two or three fold. An Englishman will do from three to thirty times as much work in a day as a

Bengalee, according as the nature of the work makes smaller or larger demands upon the skill and strength of the laborer. By the wage-fund theory, the rate of wages would remain the same through these changes, inasmuch as the aggregate capital of the Island and the number of laborers in the market would be unchanged, the only difference being found in the substitution of more efficient for less efficient laborers. According to the view here advanced, on the contrary, the amount to be paid in wages should and would rise with the increased production due to the higher industrial quality of the laboring population. Whether it would rise in exact proportion thereto is not the question we are now considering.

457. No Wage-Fund Irrespective of the Number of Laborers.—But, further, if production furnishes the measure of wages, the amount to be so paid cannot be irrespective of the numbers of the laboring class.

By the wage-fund theory, the amount that can and will be paid in wages is a predetermined dividend, the number of laborers being the divisor, and the average wages the quotient. Just in proportion as the number of laborers is diminished will the average wages be raised ; just in proportion as the number of laborers is increased, will the average wages be lowered. "There is no use," writes one of the expositors of this doctrine, "in arguing against any one of the four fundamental rules of arithmetic. The question of wages is a question of division. It is complained that the quotient is too small. Well, then, how many ways are there to make a quotient larger? Two ways. Enlarge your dividend, the divisor remaining the same, and the quotient will be larger; lessen your divisor, the dividend remaining the same, and the quotient will be larger."

This theory, that the number of laborers constitutes the divisor of a predetermined dividend, is manifestly erroneous, because it leaves out of account the influence upon production of the condition of Diminishing Returns, or the reverse, in agriculture, as well as the mechanical effects of the division of labor.

Let us, first, suppose that the island occupied by the body

of one thousand laborers before referred to, contains a great breadth of choice arable land, of which the laborers have been hitherto able to cultivate but a small portion. If, now, the number of laborers be increased twenty per cent. with a corresponding increase of capital, production will be more than proportionally increased (see par. 50), through the effect of the division of labor and the union of forces in production. Here, again, we find the wage-fund theory at fault. So great is the virtue of this cause that an increase of laborers—before the condition of diminishing returns is reached—might be followed by an increase of production even in the lack of a proportional increase of capital, or indeed, of any increase at all.

458. But now let us take the condition of diminishing returns in agriculture, that state where, if anywhere, it might be supposed the wage-fund theory would hold good. In such a condition, the soil, as we have seen (par. 51), fails to respond adequately to new applications of labor; the product falls off, not absolutely, but relatively; and, thus, while the aggregate crops are larger through the incoming of new laborers, the actual amount falling to each laborer is diminished. Wages fall. But does this happen in accordance with the economic doctrine we are considering? No; *per capita* wages fall, because *per capita* production is diminished, although often this is coincident with an actual increase of capital.

It would be brutal to inflict further blows upon a body so exanimate as the theory of the Wage-Fund. The natural and the literary history of this doctrine will be found at length in an article in the *North American Review*, for January, 1875.

VI.

THE MULTIPLE OR TABULAR STANDARD OF DEFERRED PAYMENTS.

459. We saw (par. 191) that, with a view to avoiding the fluctuations to which even the precious metals are subject, through long periods of time, it has been proposed by writers

of eminence to create a multiple or tabular standard of value. This is to be done by joining together a number of articles, of importance in the economy of daily life, in such a way that the fluctuations of value in the several constituent articles shall largely neutralize each other.

460. The details of the scheme as proposed by these writers may be stated as follows. A number of articles in general use, corn, beef, potatoes, wool, cotton, silk, tea, sugar, coffee, indigo, timber, iron, coal, and others, shall be taken, in a definite quantity of each, so many pounds or bushels or cords or yards, to form the standard required. The value of these articles, in the quantities specified and all of standard quality, shall be ascertained monthly or weekly by government, and the total sum which would at the time purchase this bill of goods shall be, thereupon, officially promulgated. Persons may then, if they choose, make their contracts for future payments in terms of this multiple or tabular standard.

For example, suppose I sell a house to-day, the value of which, as agreed upon between myself and the purchaser, is $20,000, one-half to be paid down at the time, two-tenths to be paid in two years, three-tenths in five years, with interest on the last two sums. One-half of the purchase money, being payable at once, is paid in money, $10,000 in gold or bank notes. For the rest, the purchaser and I look at the last published statement of the government commissioner, and find the value of a unit of the tabular standard to be $12.50; that is, $12.50 will now purchase the bill of goods which form the standard. The purchaser then gives me two notes, one for 320 units of the tabular standard, payable in two years, and one for 480 units, payable in five years, with interest at six per cent., per annum, meanwhile. At the end of the first year, the two parties interested look in the official gazette, and find the value of the unit at the time to be $12.75. There is then to be paid one year's interest on each note, amounting, in the case of the first note, to 19.2 units, which obligation is discharged by the payment of $244.80 in current money; and, in the case of the second note, to 28.8 units, which obligation is discharged by the payment of $367.20.