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## WAGES AND CAPITAL

(An Examination of The Wages Fund Doctrine)

by F. W. TAUSSIG

1932

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# WAGES AND CAPITAL

AN EXAMINATION OF  
THE WAGES FUND DOCTRINE

BY

F. W. TAUSSIG

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## 7 INTRODUCTION

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THIS book, written in 1892-1895 and published in 1896, has long been out of print. The London School of Economics (University of London) now honors me by undertaking a reprint in its series of scarce books and monographs.

The book should be read in the light of the stage at which economic theory stood when it was prepared. Large matters of principle were then in a ferment, which in England and the United States had led to revolt against the older doctrines and against the dominance of John Stuart Mill. On no point was that revolt more effective than on the subject of wages. The wages fund doctrine, so long the accepted basis, or at least starting point, of the treatment of wages, was strongly attacked and weakly defended. In England, Longe, Thornton, and Cliffe-Leslie, were among the more conspicuous of the dissenters; and Mill yielded to Thornton, giving up the doctrine. The only serious attempt at defense came from Cairnes, who yet endeavored not so much to maintain the old view as to remodel and rehabilitate it,—with no real success, and with no effect in stemming the contrary tide. In Germany, there had long been discontent with this doctrine, as with the general drift of the British school; not, to be sure, with such sharpness and consistency as to have any influence on the general economic formulations of the time, yet so wide-spread as to promote the reaction in theory.

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It was in the United States that the attack was most vigorous. The most conspicuous assailant was Francis A. Walker. Of him one of the keenest critics and eclectics of his day, Henry Sidgwick, remarked that he had at last given the *coup de grace* to the doctrine. Henry George argued on lines very similar to those of Walker, with the fluent and effective style that brought this, with the rest of his teaching, to the notice of an enormously large circle of readers. These were joined shortly by J. B. Clark. By the time of that scholar's contributions, the old doctrine was so shattered that he could deal with it as almost negligible, and could proceed without further ado to the formulation of very different theories of his own. It became quite the fashion among Americans to show one's modernity by a contemptuous dismissal of the wages-fund doctrine and of all that went with it.

In these debates it seemed to me at the time, and seems to me still, that there was great confusion of thought. Both the older writers and the newer were partly right, partly wrong. In particular both failed to distinguish the process by which the money wages of hired laborers get into their hands from that by which the laborers get the real income of goods and services emerging from the complicated operations of production. The older writers had usually started on the right track, but soon got astray (following Adam Smith) by treating it all as a matter simply between the immediate employer and his men. Most of the dissidents did not even start right, and at all events went astray in the same way as their predecessors. It was a case of throwing out the good with the bad.

I have to confess that, feeling quite sure that there was this confusion, the spirit of counter-reaction was unduly strong in me. Some things which are in this volume could certainly be said in a better way. I have no doubt there are



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other things which, to say the least, call for modification. Especially as regards the continued use of the term "wages fund," I should change what I wrote forty years ago. The phrase is of more than doubtful expediency, having connotations which, even tho they be explicitly disclaimed, are not easily shaken off. However defined and explained, it implies the existence of a constituent in the social income which is set apart or determined in advance with some sharpness. But the reasoning with which the first chapter of this book starts, and which gives its keynote, is applicable only to the social income ("real income") as a whole, and to the "predetermination" of that. I hope and believe there has been no failure in the volume to perceive this distinction, or call attention to the qualifications needed when applying the notion of predetermination to any one form of income, such as contractual wages. Very likely the qualifications are even more important than is indicated in these pages. At all events the term "wages fund" should be discarded.

What now, irrespective of terminology, remains of the old formula and what saving remnant may there be in and for new formulations? The answer can be indicated, I think, by comparing the old wages doctrine with the doctrine on money and prices which was its contemporary. The two belong in the same class, and reflect on the attitude characteristic of economic thought at the time of their vogue. In both the statement is of independent variables which are confronted with each other. The terms of exchange establish themselves once for all. It is tacitly assumed in both that the amounts are not dependent variables. The number of laborers (the "population") depends on one set of causes; the wages-fund ("the capital") depends on quite another. Similarly, the quantity of money is supposed to be settled by causes which have nothing to do with those that bear on the volume of commodities.

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Both formulas, however, try to find a simple statement and a simple solution for phenomena that are highly complicated. The one tries to find out what determines the general price level; the other what determines the general wages level. In neither case, it may be noted, was any doubt entertained by the older writers whether there *was* any such thing; no question, of the sort which has been raised in later days, whether there really exists such a phenomenon as "general wages" or "general prices." Particular wages and particular prices were indeed envisaged, but were reserved for later and independent treatment, being quite separate from the other thing,—the general level, regarded as a real thing and as presenting problems of its own.

But the statement made was in either case no more than an introduction, a mere presentation of the problem. The form of presentation does serve to focus attention on the matters which we should know if we try to answer questions about general wages or general price. Perhaps it presents nothing more than a truism. But a truism is often a useful introduction; and truisms are often forgotten, in learned as well as in unlearned discussions. On the other hand, a proposition of this character cannot pretend to be a solution. Clearly much more must be done before that goal is reached or even approached. We must learn what are the factors which have made the constants such as they are, or are supposed to be, at the given moment, and what changes in them are likely to be brought about, and how. We must consider, too, whether there are really independent variables. In monetary theory, for example, we elaborate at once by examining what is meant by the "money," or circulating medium, whose quantity is of effect; rehearsing the familiar take about the credit instruments and the total means of payment. And then arises the more important and difficult question of interdependence: how far, say, an increase in the

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volume of goods of itself may bring about, or contribute to, an increase in the quantity of the means of payment. Analogous questions arise if we push on from the same sort of starting point with regard to wages; and some of these I have tried to bring out in this volume.

To repeat, then, the older theories, as to both problems, can be said to give what is simply a starting point, an introductory statement. And they do this, I am still inclined to think, in a way that is not only permissible, but helpful. Monetary theory, I judge, is going back more and more to the good old quantity formulation as that which is the first step toward a solution. And a tendency of the same sort appears in the recent discussions of wages theory; though, obviously, when it comes to the later stages of the analysis of wages, the divergence from the old paths is great indeed, certainly greater than in the case of monetary theory.

On the main lines of reasoning in this introductory analysis, there is not yet a consensus of opinion among economists. But I stand my ground. The length of the period of production, the relation between present work and present consumers' income, what capital means and the part which it plays, the curious development of economic theory on these matters from Adam Smith to the close of the 19th century—on these essentials I find nothing of importance to modify. There is no occasion, however, and indeed no possibility, of entering here on a discussion of the course of thought and debate during the past generation. The book as it is now reprinted, unchanged in any particular, has played its modest part in the stir of economic theory during the life-time of its author; and I am glad to accept the judgment of the editors of the series that it deserves to be made accessible to students of a later day.

F. W. TAUSSIG.

HARVARD UNIVERSITY, *November, 1932.*

## X P R E F A C E .

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I HAVE divided the present volume into two parts: a first, of five chapters, containing a statement at large of my own views on the relation of capital to wages, and on the wages fund doctrine; and a second, of nine further chapters, in which the history of the wages fund discussion from its beginning to the present time is followed. At the close, a final chapter gives a brief summary of both parts. In this arrangement I have departed from the traditional plan, and perhaps from the strictly logical plan. It has been customary, in critical and historical inquiries as to one or another phase of economic theory, to begin with the history and criticism, and to close with the statement of the author's final conclusions. But criticism and comment proceed inevitably from the thinker's own point of view; and to weigh the conclusions of others, without having explained one's own, necessitates either an incidental and thus unsatisfactory statement of the grounds of an opinion, or a considerable anticipation of views whose full exposition is nevertheless postponed. I have accordingly adopted the reverse order, and trust I have been able thereby to make at once a briefer and a clearer presentation of my opinions.

I am sensible that in the first part, in which my own views are stated, there is some elaborateness of exposi-

tion and some liberal reaching-out to related topics. I have endeavored to make my meaning clear not only to those who have already given some attention to economic theory, but to those who are new to such discussions; and hence I may have been prolix, and may have explained at needless length matters that to many readers will seem very simple. The historical and critical discussions of the second part are addressed more particularly to special students of economic theory. While not essential for following the reasoning or for weighing the conclusions of the first part, they yet consider aspects of the wages fund controversy not to be neglected by those who would reach an opinion on the subject as a whole.

I have to express my warm thanks to Professor Maffeo Pantaleoni, who generously put his well-stocked library at my disposal in Rome during the winter of 1894-95; to Mr. James Bonar, of London, who read the manuscript of some of the earlier chapters, and greatly aided me by his criticism; and to my colleague Professor W. J. Ashley, who has read all the proofs of the volume, and offered many helpful suggestions.

Two chapters have already appeared in print. Almost the whole of Chapter III was published, under the title "The Employer's Place in Distribution," in the *Quarterly Journal of Economics* for October, 1895. Chapter XIII, on the wages fund at the hands of German economists, was published, in essentials, in the same journal for October, 1894.

F. W. TAUSSIG.

HARVARD UNIVERSITY, *November, 1895.*

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