WAGES

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CAMBRIDGE ECONOMIC HANDBOOKS

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INTRODUCTION TO THE SERIES

By the General Editor

SHORTLY after the war of 1914–18 there seemed to be a place for a Series of introductory Economic Handbooks " intended to convey to the ordinary reader and to the uninitiated student some conception of the general principles of thought which economists now apply to economic problems."

This Series was planned by the late Lord Keynes under the title *Cambridge Economic Handbooks*, and he wrote for it a general Editorial Introduction of which the words quoted above formed part. In 1936 Lord Keynes handed over the editorship of the Series to Mr. D. H. Robertson, who held it until he became Professor of Economics in the University of London.

The judgment of its originators has been justified by the wide welcome given to the Series. Apart from its circulation in the British Empire, it has been published from the start in the United States of America while translations of the principal volumes have so far appeared in German, Spanish, Italian, Swedish, Japanese, Polish and Lithuanian.

It is symptomatic of the changes which have been taking place in recent times in the development of economic science, changes associated in a high degree with the work and influence of Lord Keynes himself, that within the brief space of fifteen years the text of part of the Editorial Introduction should have stood in need of revision. In its original version the last paragraph of the Introduction to the Series ran as follows:

"Even on matters of principle there is not yet a complete unanimity of opinion amongst professors. Generally speaking, the writers of these volumes believe themselves to be orthodox members of the Cambridge School of Economics. At any rate, most of their ideas about the subject, and even their prejudices, are traceable to the contact they have enjoyed with the writings and lectures of the two economists who have chiefly influenced Cambridge thought for the past fifty years, Dr. Marshall and Professor Pigou."

When the Editorship of the Series was transferred to Mr. Robertson, Lord Keynes consented to the retention of his general Introduction, but subsequently re-wrote the concluding paragraph in the following form:

"Even on matters of principle there is not yet a complete unanimity of opinion amongst professional students of the subject. Immediately after the war daily economic events were of such a startling character as to divert attention from theoretical complexities. But to-day, economic science has recovered its wind. Traditional treatments and traditional solutions are being questioned, improved, and revised. In the end this activity of research should clear up controversy. But for the moment controversy and doubt are increased. The writers of this series must apologise to the general reader and to the beginner if many parts of their subject have not yet reached to a degree of certainty and lucidity which would make them easy and straightforward reading."

Still more recent events have produced a world so far removed from that which existed when the foregoing words were written, that it has fallen to the lot of the present Editor to provide a new Introduction.

This is perhaps a good vantage point from which to survey very briefly some of the principal trends in the evolution of economic thought in this country during the past thirty years. Prior to 1914 economic theory here was largely dominated by Alfred Marshall; and economists, following him, thought in terms of the long period tendencies of the different sections of the economic system towards positions of equilibrium, even though ever-present dynamic factors were perpetually modifying the existing structure and presenting new and equally distant, if equally unattainable, goals as stimuli to change and adaptation. Moreover, in the Marshallian system, those tendencies resulted from the working of persistent underlying forces which were conceived of as largely competitive in character. The increasing trend towards monopoly was certainly affecting thought, but not so much in the realm of the theory of value as in the emphasis which came to be laid on possible discrepancies between the private interest and the social interest. Under the influence of Professor Pigou a Welfare Economics was developing side by side with, and out of, the Value Economics of the older generation.

After 1918 the long-drawn-out agony of the depressed areas, the weakening of the position of this country in international trade, and the tremendous intensity of the economic crisis of 1930–32 (to mention but a few out of the many contributing causes) combined, on the one hand, to focus attention on problems of the short period and, on the other hand, to throw doubt on the extent to which the self-adjusting, seemingly automatic mechanism, which on the whole had operated so effectively during the nineteenth century, was capable of coping with the deep-seated maladjustments and disharmonies which characterised the post-war world. At the same time value theory itself was profoundly influenced by the emergence of a number of writers who approached value problems from the view-point of monopoly, and emphasised the unrealistic nature of an analysis which was based on the assumptions of perfect competition and a perfect market. Most of all, however, economic thought was dominated by the desire to find a solution for the problem of how to maintain the level of effective demand so as to avoid the recurrence of phases of deep depression and widespread unemployment. There was a growing feeling of impatience with the economics of the long period "in which we are all dead," and a great, perhaps even excessive, concentration on the short period in which we live and move and have our being.

The result was a remarkable ferment of ideas, the challenging of ancient orthodoxies, and "for the moment controversy and doubt [were] increased." This ferment had by no means subsided when the second war with Germany broke out in September 1939, bringing in its train a degree of State interference with the normal peace-time working of the economic system far exceeding that reached even in the last years of the war of 1914–18.

In so far as it is possible to foresee future trends, they would seem to lie in a much greater measure of conscious public control over many aspects of economic activity than has existed in the past. It will no doubt still remain true, to quote Lord Keynes's Introduction again, that:

> "The Theory of Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine an apparatus of the mind, a technique of thinking which helps its possessor to draw correct conclusions."

Nevertheless, economists may well find themselves to a greater degree than hitherto called upon to express their views on matters of economic policy, and—for a time at least—the writers of future volumes of the Cambridge Economic Handbooks may be concerned rather with specific problems than with the more general aspects of economic theory.

C. W. G.

Cambridge,
April, 1941.

NOTE TO THE THIRD REVISED EDITION

At a certain age books, like buildings, reach the point where reconstruction is more satisfactory than further renovation. The age at which this point comes will depend on the soundness or weakness of the original structure; and a reader may think that it has been already passed in the case of this book. However, for good reason or ill, the author has attempted yet one more revision of the existing text; and since the latest process of amendment has made the new edition so different in many substantial respects from the original of almost twenty years ago, some explanation to the reader would seem to be called for as to where the principal differences may be found.

Large parts of Chapter II have been rewritten to keep pace with the passage of time; and for the same reason less substantial changes have been introduced into certain sections of Chapters III, VI, VII and VIII. But the most drastic change, as a result of reconsideration and rewriting both in 1938 and to-day, has been in Chapters IV and V concerning the theory of wages: chapters which retain only a little of their original design.

M. H. D.

Cambridge,
April, 1946.

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CHAPTER I

THE WAGE-SYSTEM

§ 1. *Introductory.* There has been a good deal of discussion among economists as to how universal economic principles can be held to be: whether they can be held to apply to any type of economic system (so long as it is based on some form of exchange) or to be particular to a certain set of conditions and social institutions. Economists have been frequently taunted with their love of Robinson Crusoe analogies—with their tendency to generalise from some simple economic society to the complex world of to-day, in disregard for the various institutions which separate the modern world from Crusoe's. But whatever view one may hold of the wider question, there will be few to deny that in dealing with the wages question one is dealing with something that is very intimately related to the conditions of our modern economic system, and that the problems which one meets derive their essential shape from the special features and institutions of that system: for example, from the form in which property is owned and its distribution and from the nature of production and the division of labour.

To the discussion of wage-problems, at least, Robinson Crusoe analogies and the search for "universal principles" seem to be of little use. They may even be misleading in distracting our attention from features of the problem which we should see to be of prime importance if our gaze were focused more realistically upon conditions as they actually are. To start by studying the *differences* which distinguish the present-day setting of our problem from the past seems to be the most promising means of disclosing what is important, as well as an essential preliminary to appreciating correctly such true similarities as exist. If we examine the features which distinguish wages as they are paid to-day from other ways in which work in times past was performed and paid for, and seek to define the character of the present wage-system in these terms, we shall see that some fundamental distinctions exist which give a unique character to the actual problems with which the modern industrial system is faced.

§ 2. *Slave, Serf and Artisan.* There are three systems in the past with which the modern wage-system may be contrasted and compared.

First of these, there was Slavery, under which the person of the worker was owned by his master and could be bought and sold. The whole time of the slave was at his master's disposal; and the master fed the worker as much as he thought fit to keep him in working efficiency, and made use of the slave's working time either to minister directly to his needs and fancies or for commercial purposes to produce a product. The master's income depended upon the number of slaves and upon the extent to which the product of their work exceeded their subsistence: their subsistence represented his cost or outlay, and what they produced above this his surplus or "net revenue." When the supply of new slaves was plentiful and slaves as a result were cheap to buy, the master did not need to spend much on keeping them, and he could afford to work them hard and exhaust them early and then replenish his stock by buying slaves anew. When, with the cessation of new conquests or the decline of the slave trade, new slaves became more scarce and more costly, then a slave as a more valuable object required to be more circumspectly cared for: probably the master had then to provide enough for each slave to breed and rear a family as well.

Secondly, there was Serfdom, which prevailed over most of Europe in the Middle Ages under feudalism, and has existed in slightly different forms at other times in various parts of the world. Here each village was mainly self-sufficing, and trade outside the village-unit was the exception rather than the rule. The serf did not belong in person to a master, but owed certain services by customary right to his lord, and was attached to the lord's estate and could not move from it. Often he was bartered with the estate, as in seventeenth- and eighteenth-century Germany and nineteenth-century Russia estates worth so many "souls" were mortgaged or purchased, and as Edward I in England made a grant of royal mines to his Italian creditors, the Frescobaldi, together with the compulsory labour of the "King's miners." Usually the serf procured his subsistence by working certain strips of land which he held as his own by customary right, in return for the obligation to devote the remainder of his time to cultivating his lord's fields or working in his lord's household. The land held by the serfs and the time that was their own had to suffice to maintain themselves and their families. The more fertile the land and the