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Review

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nice degrees of quantity are not cognisable—for example, in comparing the ability of two persons, or the pleasurable-ness of two courses—if we are competent to perceive the fact of a difference, we are also competent to roughly estimate the extent of the difference, to affirm that it is considerable or trifling.

But an adequate discussion of statements so authoritative as Mr. Pierson's must be postponed. It has been attempted here merely to indicate the principal additions which have been made to the second edition of this standard work. A fuller consideration might be more appropriate when the English reader can be referred to chapter and verse in a translation ; which we earnestly hope will soon be forthcoming.

F. Y. EDGEWORTH

*Some Problems Relating to the Theory of Wages.* By Dr. N. G. PIERSON. (*Eenige Problemen met Betrekking tot de Theorie van het Arbeidsloon* : door N. G. Pierson. Amsterdam : Johannes Müller. 1896.)

WE have here a pamphlet of twenty-nine pages, containing reprints of three essays by Dr. N. G. Pierson, which have appeared in the *Reports and Communications* of the Netherlands Royal Academy of Science. The questions dealt with are : (a) How are wages affected by the introduction of labour-saving appliances ? (b) The reduction of working hours as a means of mitigating want of employment ; and (c) the advantage or necessity of relief works, and the principles which should underlie such methods of dealing with unemployment. In the first essay our author cautions us against a contemptuous dismissal of the view ordinarily held by the working man, that he is displaced by machinery. There is plenty of evidence to support this view in such works as Hobson's *Evolution of Modern Capitalism*, and Schoenhof's *Economy of High Wages*. And yet, the fact that wages have risen in the course of this century is as indisputable as its causes are clear : the increased revenue resulting from the increased efficiency of labour aided by machinery, has fallen to the race as a whole, and to its most numerous section in particular—the working class. The author, however, insists that the saving of labour *per se* does not produce higher wages, and that the proposition would be more correctly stated thus : *Saving of labour, if effected on a large scale, is always succeeded by something else which favourably influences wages.* It is true, he adds, that this other something has never yet failed, but we cannot be sure that it never will.

We are asked to imagine a country in which all capital has been invested, new machinery extensively introduced, and workpeople dismissed. *Entrepreneurs* are making big profits, but these profits, instead of being saved, are immediately and wholly spent—this, of course, being almost inconceivable. Should one prosperous year succeed

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another, a permanent increase in the amount of capital offered may arise, even supposing the whole of the profits have been spent. But where, it is asked, are increased wages to come from under such conditions? It may be said that competition will take place in trades where big profits are being made. This means that capital will flow in from other trades, in which, consequently, the equilibrium between the demand and supply of labour will be disturbed, only to be restored at a lower rate of wages. Commodities will become cheaper, but only in those trades in which they are being produced on an increased scale, while in other trades they will rise in price, *i.e.*, in those from which capital has been withdrawn.

In all this there is nothing to benefit the worker: the capitalist alone is the gainer, and he gains even by the increased expenditure of the manufacturers. It is only when *fresh* capital is invested in industry that a movement takes place which tends to increase the general well-being, including that of the worker. It matters not whether this capital be our own savings or those of others, whether accumulated in the country or imported from outside.

This brings us to the 'other something' referred to by the author, the kernel of whose contention in the present essay is, that any benefit which has accrued to the working class from the application of machinery has been solely due to the incentive which it has created for the accumulation of capital; and the author apprehends a weakening of this incentive from the spread of joint-stock societies, by which capitalist and *entrepreneur* are kept apart for 364 days in the year, and only confronted on one day—that of the general meeting. The tendency of the joint-stock society is to distribute profits instead of applying them to the extension of its industry. Though possessing facilities for largely extending its means of production, yet in doing so by the issue of bonds and obligations the joint-stock society withdraws capital from other industries.

A reserve of capital is no less necessary for modern industry than a reserve of labour. The fact that nowadays most countries possess such a reserve in the shape of stocks, readily realisable anywhere, and the facility with which such reserves can be transferred from one money market to another, afford, in the author's opinion, one of the strongest guarantees against the introduction of new machinery being followed by such distress as that which formed such a gloomy feature of the industrial transformation which took place in England at the end of the last, and beginning of the present century.

In the second essay the author contends that the shortening of the working day, if it result in a decrease of production, may prove a palliative for scarcity of employment, but only on condition that the reduction of working hours be accompanied by a proportionate reduction of wages. The necessity of the last-named condition has been disputed, notably, says the author, before the Royal Commission on Labour, by Tom Mann, whose arguments are understood to have been

somewhat as follows :—The diminution of production in itself provides a corrective against reduction of the daily wage, inasmuch as it raises prices so that employers can afford to continue the old wage. This rise in prices is maintained through the increased demand from the additional number of persons having work. The author describes this as an attempt to prove the impossible, and as calculated to place the theory that the shortening of the working day may tend to relieve scarcity of employment in too unfavourable a light. He also thinks it remarkable that it should have been made by those who, ‘on other questions are not disposed to represent the working of the economic laws which regulate wages in too favourable a light.’

The substance of our author's reply is as follows :—Firstly, if commodities become dearer and wages remain unchanged, the worker loses. If it be intended to assert that wages would rise, this could only result from a *considerable* rise in prices, the effect of which would be that the workman would earn more money, but would pay much more for his purchases. Secondly, the proposition that scarcity raises prices is only true if the scarcity be not accompanied by diminution of purchasing power, such as in this case must be looked for. It is conceivable that the price of a given article will rise when the supply of that article is limited by a reduction of hours in the industry which produces it; but, as the number of industries increases, in which the reduction of hours has been attended with the results here assumed, the probability diminishes that restricted supply will produce higher prices; while, if the restriction of hours be confined to the production of a few classes of goods, what guarantee is there that these particular classes will be influenced by the increased demand which, it is said, will arise from the fact that an additional number of persons are having work? Hence the following dilemma :—(1) Either the limitation of hours takes place on an extensive scale: then there is no rise in prices, for the purchasing power of a large number will have been reduced; or (2) it takes place on a small scale: but then the rise in prices, which is indeed probable, is only maintained until, through the employment of a number of previously unemployed persons, the original quantity of goods is again produced. Thirdly, the effect of international trade has been overlooked. Through increased import and decreased export of goods which cost much labour, a speedy end will be made of the rise in prices from which so much is looked for. Lastly, every increase of wages gives rise to a demand for capital, consequently to a rise in the rate of interest—unless fresh savings have meanwhile been accumulated—which continues so long as capital is scarce, until it becomes impossible for a number of businesses to be carried on any longer with profit, and the equilibrium between demand and supply of capital is restored. Many workers are dismissed and the evil which it was attempted to combat, returns.

It would indeed be very fortunate, the author says, if wages could remain the same while the value of the work done for the wages became

less, but reflection and investigation teach us that this is not to be expected. This may happen in special cases, thanks to the benevolence of enlightened *entrepreneurs*, but as a general rule it is inconceivable, and it were better to face the inevitable boldly. If the fact that so many workers are unable to find employment in their trade can only be mitigated by reducing wages that have been brought above the normal level by excessively long hours, it ought not to be considered too high a price to pay for the advantage that would result, especially as the loss sustained in wages would, in course of time, spread itself over a larger number of persons, and thus diminish the loss per head. At least, this is so if one may accept what experts say and what has been proved by many experiments, viz., that in a large number of cases a reduction of working hours entails no perceptible falling off in production. Another point to be remembered is, that the greater the number of cases in which a reduction of working hours does not lead to a reduction of output, the less likely is it to diminish want of work.

In the third essay the author aims at answering the objections of certain persons who, while admitting the necessity of relief works in dealing with periodical or recurrent want of employment, and the desirability of providing work of a productive, *i.e.*, educative character, are deterred by the conviction that by thus trespassing on the domain of private industry, they will throw workers out of employment.

If it be true, says the author, in reply to this objection, that material well-being has its origin in production, then the greater the production, the greater the well-being. How, he asks, can the production of things which possess value, diminish well-being? All value is due to scarcity; only those things are valuable, of which the supply is less than the demand. Producing things which have value means supplying a demand, and this forsooth, is prejudicial to well-being!

When at any given moment an *entrepreneur* finds that he cannot obtain for his wares such a price as will enable him to pay his work-people, and cover all his other expenditure, he parts with his employees. He does the same when, from one cause or another, he is temporarily prevented from carrying on his business—*e.g.*, by frost, if he be a builder. It does not follow that the labour of the workers thus dismissed has become entirely valueless; it may be valuable—though in a lesser degree—for other purposes. Here philanthropy steps in, and by providing work permits those whose labour in their own trade is for a time of little value, to perform other work. Is it not clear, says Dr. Pierson, that the best kind of relief work is that which is most productive, that is, in normal cases, such work as shall produce the best financial results, or the product of which shall fetch the highest price in proportion to the energy expended?

The capital rendered superfluous in any industry through additional production arising from relief works, is sure, continues the author, to find employment in some other industry. It may be contended that in

certain industries the withdrawal of capital cannot be effected without considerable loss and the dismissal of hands, and that the extension of industry in other directions necessitates the building of factories and workshops, and the consequent absorption of floating capital out of which wages are paid. This is a valid objection against the too sudden introduction of a system of relief works, but is not an argument against the principle of relief works; and it is pointed out that growth of population and income are always attended by growth of demand for products, that hence the domain open to private enterprise is not curtailed, but merely altered in shape, by a judiciously applied system of productive relief works, such as would only supply *part* of the growing demands, which previously either did not exist, or had not declared themselves.

A further objection might be based on the very fact that the works are periodical, viz., that by restricting or hindering the development of certain classes of private industry, they might be responsible for inability to meet sudden urgent demands at certain times of the year. This difficulty is avoidable by confining the relief works to the production either of non-perishable articles, or of articles which are in special demand in the winter time, but preferably the former. What has been said has reference solely to works introduced as remedies for periodical or recurrent want of employment. Exceptional distress, says the author, calls for exceptional measures, but whatever the nature of the works adopted as remedies, regard must here be had for the interests of private industry. Generally speaking, the works should be such as may benefit the community as a whole.

The essay concludes with a brief criticism of the methods pursued by the Amsterdam Committee for providing work for the unemployed, in which the author deprecates the system of distributing the articles made in the relief workshops among necessitous persons.

A. A. WOTZEL

*Wages and Capital, an Examination of the Wages Fund Doctrine.*

By F. W. TAUSSIG. Professor of Political Economy in Harvard University. (New York: Appleton & Co., 1896.)

A FEW years ago we seemed in England and America to be rapidly attaining to a simple and comprehensive view of the principal phenomena of production and distribution. The income of 'the community' or the world for a given period was to consist of the material satisfactions enjoyed *plus* the net additions made during the period to its capital, or stock of goods in existence at any given point of time. The aggregate earnings of workers were to be that portion of the total income which is received by workers because they work; the aggregate of 'wages' (when the word is not used in the larger sense as a synonym of earnings) was to be merely the aggregate of all the prices paid for commodities or services produced by sellers working under