Chapter 6 Wages and The Law of Wages

Having by inference already obtained the law of wages, we shall verify it by deriving it independently.

We have by inference already obtained the law of wages. But to verify the deduction and to strip the subject of all ambiguities, let us seek the law from an independent starting point.

Wages vary with differing powers of individuals, and among occupations. But there is a general idea that wages are higher or lower in one time or place than in another, and we seek the law which determines this.

There is, of course, no such thing as a common rate of wages, in the sense that there is at any given time and place a common rate of interest. Wages, which include all returns received from labor, not only vary with the differing powers of individuals, but, as the organization of society becomes elaborate, vary largely as between occupations. Nevertheless, there is a certain general relation between all wages, so that we express a clear and well-understood idea when we say that wages are higher or lower in one time or place than in another. In their degrees, wages rise and fall in obedience to a common law. What is this law?

Since men seek to gratify their desires with the least exertion, this must equalize the reward gained by equal exertions under similar circumstances.

The fundamental principle of human action—the law that is to political economy what the law of gravitation is to physics—is that men seek to gratify their desires with the least exertion. Evidently, this principle must bring to an equality, through the competition it induces, the reward gained by equal exertions under similar circumstances. When men work for themselves, this equalization will be largely effected by the equation of prices; and between those who work for themselves and those who work for others, the same tendency to equalization will operate. Now, under this principle, what, in conditions of freedom, will be the terms at which one man can hire others to work for him? Evidently, they will be fixed by what the men could make if laboring for themselves. The principle which will prevent him from having to give anything above this except what is necessary to induce the change, will also prevent them from taking less. Did they demand more the competition of others would prevent them from getting employment. Did he offer less, none would accept the terms, as they could obtain greater results by working for themselves. Thus, although the employer wishes to pay as little as possible, and the employee to receive as much as possible, wages will be fixed by the value or produce of such labor to the laborers themselves. If wages are temporarily carried either above or below this line, a tendency to carry them back at once arises.

Therefore, a man could hire another to work for him at the same wage that the other could earn working for himself.

But the result, or the earnings of labor, as is readily seen in those primary and fundamental occupations in which labor first engages, and which, even in the most highly developed condition of society, still form the base of production, does not depend merely upon the intensity or quality of the labor itself. Wealth is the product of two factors, land and labor, and what a given amount of labor will yield will vary with the powers of the natural opportunities to which it is applied. This being the case, the principle that men seek to gratify their desires with the least exertion will fix wages at the produce of such labor at the point of highest natural productiveness open to it. Now, by virtue of the same principle, the highest point of natural productiveness open to labor under existing conditions will be the lowest point at which production continues, for men, impelled by a supreme law of the human mind to seek the satisfaction of their desires with the least exertion, will not expend labor at a lower point of productiveness while a higher is open to them. Thus the wages

But the earnings of labor do not depend only upon the intensity and quality of labor.

What a given amount of labor will yield depends on the natural opportunities to which it is applied.

The highest point of natural productiveness open to labor without payment of rent will be the lowest point at which production continues.

So the wages which an employer must pay will be measured by the lowest point of natural productiveness to which production extends.

which an employer must pay will be measured by the lowest point of natural productiveness to which production extends, and wages will rise or fall as this point rises or falls.

To illustrate, consider a simple society, where each works for himself, and all the land in use is of the same quality. Wages will be the full produce of labor, and if one wishes to employ another he must pay wages fixed by the full average produce of labor.

To illustrate: In a simple state of society, each man, as is the primitive mode, works for himself—some in hunting, let us say, some in fishing, some in cultivating the ground. Cultivation, we will suppose, has just begun, and the land in use is all of the same quality, yielding a similar return to similar exertions. Wages, therefore—for, though there is neither employer nor employed, there are yet wages—will be the full produce of labor, and, making allowance for the difference of agreeableness, risk, etc., in the three pursuits, they will be on the average equal in each—that is to say, equal exertions will yield equal results. Now, if one of their number wishes to employ some of his fellows to work for him instead of for themselves, he must pay wages fixed by this full, average produce of labor.

Subsequently, cultivation extends to lands of different qualities. Wages now will be the average produce of labor at the point of lowest return.

Let a period of time elapse. Cultivation has extended, and, instead of land of the same quality, embraces lands of different qualities. Wages, now, will not be as before, the average produce of labor. They will be the average produce of labor at the margin of cultivation, or the point of lowest return. For, as men seek to satisfy their desires with the least possible exertion, the point of lowest return in cultivation must yield to labor a return equivalent to the average return in hunting and fishing.[1] Labor will no longer yield equal returns to equal exertions, but those who expend their labor on the superior land will obtain a greater produce for the same exertion than those who cultivate the inferior land. Wages, however, will still be equal, for this excess which the

Wages will still be equal; the excess production on the superior land is really rent, not wages.

[1]This equalization will be effected by the equation of prices.

cultivators of the superior land receive is in reality rent, and if land has been subjected to individual ownership will give it a value. Now, if, under these changed circumstances, one member of this community wishes to hire others to work for him, he will have to pay only what the labor yields at the lowest point of cultivation. If thereafter the margin of cultivation sinks to points of lower and lower productiveness, so must wages sink; if, on the contrary, it rises, so also must wages rise; for, just as a free body tends to take the shortest route to the earth's center, so do men seek the easiest mode to the gratification of their desires.

Now, if one wishes to employ another he need pay only what the labor yields at the lowest point of cultivation. If the margin sinks to points of lower productiveness, so must wages sink.

Here, then, we have the law of wages, as a deduction from a principle most obvious and most universal. That wages depend upon the margin of cultivation—that they will be greater or less as the produce which labor can obtain from the highest natural opportunities open to it is greater or less, flows from the principle that men will seek to satisfy their wants with the least exertion.

Wages, then, depend on the margin of cultivation. They are greater or less as the produce which labor can obtain from the highest natural opportunities open to it is greater or less.

Now, if we turn from simple social states to the complex phenomena of highly civilized societies, we shall find upon examination that they also fall under this law.

This principal also applies in complex societies.

In such societies, wages differ widely, but they still bear a more or less definite and obvious relation to each other. This relation is not invariable, as at one time a philosopher of repute may earn by his lectures many fold the wages of the best mechanic, and at another can hardly hope for the pay of a footman; as in a great city occupations may yield relatively high wages, which in a new settlement would yield relatively low wages; yet these variations between wages may, under all conditions, and in spite of arbitrary divergences caused by custom, law, etc., be traced to certain circumstances. In one of his most interesting chapters Adam Smith thus enumerates the principal circumstances which “make up for a small pe-

In such societies, wages vary widely but have a more or less definite relation to one another.

Adam Smith listed the main reasons for these differences:

cuniary 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."[2] It is not necessary to dwell in detail on these causes of variation in wages between different employments. They have been admirably explained and illustrated by Adam Smith and the economists who have followed him, who have well worked out the details, even if they have failed to apprehend the main law.

(1) agreeableness of the work; (2) ease or difficulty of learning the occupation; (3) steadiness of employment; (4) trust reposed; (5) probability of success.

The effect of all the circumstances which give rise to the differences between wages in different occupations may be included as supply and demand, and it is perfectly correct to say that the wages in different occupations will vary relatively according to differences in the supply and demand of labor—meaning by demand the call which the community as a whole makes for services of the particular kind, and by supply the relative amount of labor which, under the existing conditions, can be determined to the performance of those particular services. But though this is true as to the relative differences of wages, when it is said, as is commonly said, that the general rate of wages is determined by supply and demand, the words are meaningless. For supply and demand are but relative terms. The supply of labor can only mean labor offered in exchange for labor or the produce of labor, and the demand for labor can only mean labor or the produce of labor offered in exchange for labor. Supply is thus demand, and demand supply, and, in the whole community,

One may describe these differences as due to supply and demand

But of course supply and demand are really the same thing, supply of and demand for products of labor.

[2]This last, which is analogous to the element of risk in profits, accounts for the high wages of successful lawyers, physicians, contractors, actors, etc.

one must be coextensive with the other. This is clearly apprehended by the current political economy in relation to sales, and the reasoning of Ricardo, Mill, and others, which proves that alterations in supply and demand cannot produce a general rise or fall of values, though they may cause a rise or fall in the value of a particular thing, is as applicable to labor. What conceals the absurdity of speaking generally of supply and demand in reference to labor is the habit of considering the demand for labor as springing from capital and as something distinct from labor; but the analysis to which this idea has been heretofore subjected has sufficiently shown its fallacy. It is indeed evident from the mere statement, that wages can never permanently exceed the produce of labor, and hence that there is no fund from which wages can for any time be drawn, save that which labor constantly creates.

So taking the community as a whole, demand and supply must be equal.

But, though all the circumstances which produce the differences in wages between occupations may be considered as operating through supply and demand, they, or rather, their effects, for sometimes the same cause operates in both ways, may be separated into two classes, according as they tend only to raise apparent wages or as they tend to raise real wages—that is, to increase the average reward for equal exertion. The high wages of some occupations much resemble what Adam Smith compares them to, the prizes of a lottery, in which the great gain of one is made up from the losses of many others. This is not only true of the professions by means of which Dr. Smith illustrates the principle, but is largely true of the wages of superintendence in mercantile pursuits, as shown by the fact that over ninety per cent. of the mercantile firms that commence business ultimately fail. The higher wages of those occupations which can be prosecuted only in certain states of the weather, or are otherwise

Wages in some occupations appear high only because they compensate for special disadvantages inherent in the work.

intermittent and uncertain, are also of this class; while differences that arise from hardship, discredit, unhealthiness, etc., imply differences of sacrifice, the increased compensation for which only preserves the level of equal returns for equal exertions. All these differences are, in fact, equalizations, arising from circumstances which, to use the words of Adam Smith, "make up for a small pecuniary gain in some employments and counterbalance a great one in others." But, besides these merely apparent differences, there are real differences in wages between occupations, which are caused by the greater or less rarity of the qualities required—greater abilities or skill, whether natural or acquired, commanding on the average greater wages. Now, these qualities, whether natural or acquired, are essentially analogous to differences in strength and quickness in manual labor, and as in manual labor the higher wages paid the man who can do more would be based upon wages paid to those who can do only the average amount, so wages in the occupations requiring superior abilities and skill must depend upon the common wages paid for ordinary abilities and skill.

High wages in other occupations are real reflections of the skill or ability required.

It is, indeed, evident from observation, as it must be from theory, that whatever be the circumstances which produce the differences of wages in different occupations, and although they frequently vary in relation to each other, producing, as between time and time, and place and place, greater or less relative differences, yet the rate of wages in one occupation is always dependent on the rate in another, and so on, down, until the lowest and widest stratum of wages is reached, in occupations where the demand is more nearly uniform and in which there is the greatest freedom to engage.

The rate of wages in any one occupation is always dependent on the rate in another, and so on, down until the lowest and widest stratum of wages is reached.

For, although barriers of greater or less difficulty may exist, the amount of labor which can be determined in any particular pursuit is nowhere absolutely fixed. All mechanics could act as laborers, and many laborers could readily become mechanics; all storekeepers could act as shopmen, and many shopmen could easily become storekeepers; many farmers would, upon inducement, become hunters or miners, fishermen or sailors, and many hunters, miners, fishermen, and sailors know enough of farming to turn their bands to it on demand. In each occupation there are men who unite it with others, or who alternate between occupations, while the young men who are constantly coming in to fill up the ranks of labor are drawn in the direction of the strongest inducements and least resistances. And further than this, all the gradations of wages shade into each other by imperceptible degrees, instead of being separated by clearly defined gulfs. The wages, even of the poorer paid mechanics, are generally higher than the wages of simple laborers, but there are always some mechanics who do not, on the whole, make as much as some laborers; the best paid lawyers receive much higher wages than the best paid clerks, but the best paid clerks make more than some lawyers, and in fact the worst paid clerks make more than the worst paid lawyers. Thus, on the verge of each occupation, stand those to whom the inducements between one occupation and another are so nicely balanced that the slightest change is sufficient to determine their labor in one direction or another. Thus, any increase or decrease in the demand for labor of a certain kind cannot, except temporarily, raise wages in that occupation above, nor depress them below, the relative level with wages in other occupations, which is determined by the circumstances previously adverted to, such as relative agreeableness or continuity of employment, etc. Even, as experience shows, where artificial barriers are imposed to this interaction, such as limiting laws, guild regulations, the

For the amount of labor which can engage in any particular pursuit is nowhere absolutely fixed.

Many people are able, within limits, to change occupations, and there are always young workers choosing careers.

Thus, any change in the demand for labor of a certain kind can only temporarily raise or lower wages in that occupation relative to other occupations.

establishment of caste, etc., they may interfere with, but cannot prevent, the maintenance of this equilibrium. They operate only as dams, which pile up the water of a stream above its natural level, but cannot prevent its overflow.

It is evident that wages in all strata must ultimately depend upon wages in the lowest and widest stratum.

Thus, although they may from time to time alter in relation to each other, as the circumstances which determine relative levels change, yet it is evident that wages in all strata must ultimately depend upon wages in the lowest and widest stratum—the general rate of wages rising or falling as these rise or fall.

The primary occupations are those which procure wealth directly from nature, so the law of wages in them must be the general law of wages. And wages in these occupations depend upon the margin of cultivation.

Now, the primary and fundamental occupations, upon which, so to speak, all others are built up, are evidently those which procure wealth directly from nature; hence the law of wages in them must be the general law of wages. And, as wages in such occupations clearly depend upon what labor can produce at the lowest point of natural productiveness to which it is habitually applied; therefore, wages generally depend upon the margin of cultivation, or, to put it more exactly, upon the highest point of natural productiveness to which labor is free to apply itself without the payment of rent.

This law is so obvious that it is often apprehended without being recognized.

So obvious is this law that it is often apprehended without being recognized. It is frequently said of such countries as California and Nevada that cheap labor would enormously aid their development, as it would enable the working of the poorer but most extensive deposits of ore. A relation between low wages and a low point of production is perceived by those who talk in this way, but they invert cause and effect. It is not low wages which will cause the working of low grade ore, but the extension of production to the lower point which will diminish wages. If wages could be arbitrarily forced down, as has sometimes been attempted by statute, the poorer mines would not be worked so long as richer mines could be worked. But if the margin of production were arbitrarily forced down, as it might be, were the superior natural opportunities in the ownership of those who chose rather to wait for future increase of value than to permit them to be used now, wages would necessarily fall.

This law of wages is identical to the one previously obtained as corollary of the law of rent:

Wages depend upon the margin of production, or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent.

The demonstration is complete. The law of wages we have thus obtained is that which we previously obtained as the corollary of the law of rent, and it completely harmonizes with the law of interest. It is, that:

Wages depend upon the margin of production, or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent.

This law of wages accords with and explains facts that without it seem unrelated and contradictory.

This law of wages accords with and explains universal facts that without its apprehension seem unrelated and contradictory. It shows that:

Where land is free and labor is unassisted by capital, the whole produce will go to labor as wages.

Where land is free and labor is assisted by capital, wages will consist of the whole produce, less that part necessary to induce the storing up of labor as capital.

Where land is subject to ownership and rent arises, wages will be fixed by what labor could secure from the highest natural opportunities open to it without the payment of rent.

Where natural opportunities are all monopolized, wages may be forced to the minimum at which laborers will consent to reproduce.

Where natural opportunities are all monopolized, wages may be forced by the competition among laborers to the minimum at which laborers will consent to reproduce.

This necessary minimum of wages (which by Smith and Ricardo is denominated the point of "natural wages," and by Mill supposed to regulate wages, which will be higher or lower as the working classes consent to reproduce at a higher or lower standard of comfort) is, however, included in the law of wages as previously stated, as it is evident that the margin of production cannot fall below that point at which enough will be left as wages to secure the maintenance of labor.

Like Ricardo's law of rent, of which it is the corollary, this law of wages carries with it its own proof and becomes self-evident by mere statement. For it is but an application of the central truth that is the foundation of economic reasoning —that men will seek to satisfy their desires with the least exertion. The average man will not work for an employer for less, all things considered, than he can earn by working for himself; nor yet will he work for himself for less than he can earn by working for an employer, and hence the return which labor can secure from such natural opportunities as are free to it must fix the wages which labor everywhere gets. That is to say, the line of rent is the necessary measure of the line of wages. In fact, the accepted law of rent depends for its recognition upon a previous, though in many cases it seems to be an unconscious, acceptance of this law of wages. What makes it evident that land of a particular quality will yield as rent the surplus of its produce over that of the least productive land in use, is the apprehension of the fact that the owner of the higher quality of land can procure the labor to work his land by the payment of what that labor could produce if exerted upon land of the poorer quality.

In fact, the accepted law of rent depends upon this law of wages.

In its simpler manifestations, this law of wages is recognized by people who do not trouble themselves about political economy, just as the fact that a heavy body would fall to the earth was long recognized by those who never thought of the law of gravitation. It does not require a philosopher to see that if in any country natural opportunities were thrown open which would enable laborers to make for themselves wages higher than the lowest now paid, the general rate of wages would rise; while the most ignorant and stupid of the placer miners of early California knew that as the placers gave out or were monopolized, wages must fall. It requires no fine-spun theory to explain why wages are so high relatively to production in new countries where land is yet unmonopolized. The cause is on the surface. One man will not work for another for less than his labor will really yield, when he can go upon the next quarter section and take up a farm for himself. It is only as land becomes monopolized and these natural opportunities are shut off from labor, that laborers are obliged to compete with each other for employment, and it becomes possible for the farmer to hire hands to do his work while he maintains himself on the difference between what their labor produces and what he pays them for it.

Adam Smith himself saw the cause of high wages where land was yet open to settlement.

Adam Smith himself saw the cause of high wages where land was yet open to settlement, though he failed to appreciate the importance and connection of the fact. In treating of the Causes of the Prosperity of New Colonies (Chap. VII, Book IV, "Wealth of Nations") he says:

> "Every colonist gets more land than he can possibly cultivate. He has no rent and scarce any taxes to pay.... He is eager, therefore, to collect laborers from every quarter and to pay them the most liberal wages. But these liberal wages, joined to the plenty and cheapness of land, soon make these laborers leave him in order to become landlords themselves, and to reward with equal liberality other laborers who soon leave them for the same reason they left their first masters."

This chapter contains numerous expressions which, like the opening sentence in the chapter on The Wages of Labor, show that Adam Smith failed to appreciate the true laws of the distribution of wealth only because he turned away from the more primitive forms of society to look for first principles amid complex social manifestations, where he was blinded by a preaccepted theory of the functions of capital, and, as it seems to me, by a vague acceptance of the doctrine which, two years after his death, was formulated by Malthus. And it is impossible to read the works of the economists who since the time of Smith have endeavored to build up and elucidate the science of political economy without seeing how, over and over again, they stumble over the law of wages without once recognizing it. Yet, "if it were a dog it would bite them!" Indeed, it is difficult to resist the impression that some of them really saw this law of wages, but, fearful of the practical conclusions to which it would lead, preferred to ignore and cover it up, rather than use it as the key to problems which without it are so perplexing. A great truth to an age which has rejected and trampled on it, is not a word of peace, but a sword!

Subsequent economists have repeatedly stumbled over the law of wages without once recognizing it.

Perhaps it may be well to remind the reader, before closing this chapter, of what has been before stated that I am using the word wages not in the sense of a quantity, but in the sense of a proportion. When I say that wages fall as rent rises, I do not mean that the quantity of wealth obtained by laborers as wages is necessarily less, but that the proportion which it bears to the whole produce is necessarily less. The proportion may diminish while the quantity remains the same or even increases. If the margin of cultivation descends from the productive point which we will call 25, to the productive point we will call 20, the rent of all lands that before paid rent will increase by this difference, and the proportion of the whole produce which goes to laborers as wages will to the same extent diminish; but if, in the meantime, the advance of the arts or the economies that become possible with greater population have so increased the productive power of labor that at 20, the same exertion will produce as much wealth as before at 25, laborers will get as wages as

I am using the word wages not in the sense of a quantity but of a proportion. The quantity may increase even as the proportion diminishes.

In such case, the relative fall of wages great a quantity as before, and the relative fall of wages will not be noticeable in any diminution of the necessaries or comforts of the laborers but only in the increased value of land and the greater incomes and more lavish expenditure of the rent-receiving class.

may be noticed only in the increased value of land and the greater incomes of landlords.