

On the English and Irish Analyses of Wages and Profits. By
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By the Irish analysis of wages and profits, I mean that written by one* of the Vice-Presidents of this society, in his lectures upon the distribution of wealth. I call it the Irish analysis, because it is written by an Irishman, and because in its order, and in some important conclusions to which it leads, it is wholly at variance with the English analysis. And I take this opportunity of noticing the peculiarities of both, feeling convinced that the merits of this Irish analysis have not as yet been appreciated generally, either in this country or in England, as they deserve.

To show how little this work is known by English writers upon the subject of Political Economy, I shall mention an incident that occurred in my own endeavours to acquire an accurate knowledge of this science. A few years ago, having a considerable portion of my time occupied by the business of my profession, and wishing to economise as much as possible the remainder of my time, and to employ it in acquiring a knowledge of this science, I anxiously inquired for some brief history of the science, with the object of obtaining, as it were, in the first instance, a cursory glance at the leading outlines, and afterwards filling up the intervals as time might be allowed me. And I was delighted to find a work which exactly professed to answer my purpose. It was entitled, "The Literature of Political Economy," by J. R. M'Culloch, Esq., and professed to give a classified catalogue of the different works of merit upon the subject, together with a brief summary of their contents. It was published more than ten years after the Irish analysis of the distribution of wealth; and in that Irish analysis many of the principles which had been laid down in Mr. M'Culloch's previous works were canvassed and confuted; and yet, in "The Literature of Political Economy," I observed that the Irish Analysis was not noticed—even the name of its author was not mentioned. I suppose Mr. M'Culloch never thought of looking into *Irish* works upon the subject, under influence of the sentiment conveyed by the question, "Can anything good come out of Ireland?"

English writers upon the distribution of wealth treat of wages

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before profits, and found their analysis of profits upon that of wages. The Irish analysis does the very reverse: it treats of profits before wages, and finds the analysis of wages upon that of profits. Again, the English authors, in their treatises, write about wages as commodity wages—that is, commodities purchaseable by money wages: the Irish analysis treats of wages, primarily, as money wages. It is from these two sources that the chief distinctions between the two analyses are derived.

That money wages and commodity wages, at the same time and place, represent the same value, there can be no doubt. Further, that commodity wages form a better test than money wages do of the labourer's condition, there can also be no question. But though commodity wages are the best test of the labourer's condition, I maintain that commodity wages cannot form a basis upon which there can be erected a useful analysis of wages and profits; and that it is because the English analysis of profits is founded upon wages, and wages are used in this sense, that their whole analysis is in its reasoning confused, and in its result comparatively useless, as amounting to nothing more than a mere identical proposition.

When any man finds his reasoning in moral or political science upon a definition; for example, when a man writing upon Political Economy defines a word in a sense at variance with its popular signification, and finds his reasoning upon that definition; he can, as a general rule, arrive only at an identical or a trifling conclusion. And hence, when the present Professor of Political Economy in Oxford (than whom no abler, and, in some important particulars, no more useful writer upon the subject has appeared), when he defines wages to be commodity wages, and upon that definition finds his analysis of wages and profits, he arrives at the conclusion, "that the difference between the values of the advances and returns depends on the amount of labour which, at a previous period, was devoted to the production of wages, compared with the amount of labour which those wages when produced could command;" a conclusion which, when we estimate the advances and returns by the common measure of labour, and translate the expression, simply signifies, "that the difference between the values of the advances and returns depends on the difference between the values of the advances and returns"—a purely identical proposition.

One will now naturally ask himself, how is it that a writer of such eminence did not perceive his conclusion to be merely an identical proposition? I propose to explain this in the following way. One of Mr. Senior's chief objects, in his analysis of wages and profits, appears to have been to overthrow the system of Ricardo. Ricardo had adopted the definition of commodity wages, and reasoned upon it. This was one error of his system which Senior did not observe, and he himself fell into it. But Ricardo committed another error which Senior did observe and attack,

namely, the using the fraction whose numerator was the labourer's share of the produce, and whose denominator was the entire produce,—the using this fraction sometimes simply as the labourer's share, and sometimes as the proportion of that share to the produce.

Now, it so happens that, by a curious compensation of errors, the result elicited from the reasoning in which these two errors are combined is true, and conformable to the *popular* signification of the word wages. Hence Senior, not observing any mere identical proposition as the result of Ricardo's reasoning, and knowing that he himself had founded his reasoning upon the same signification of wages as Ricardo had done, would not be likely to spend a thought upon any such result of his own reasoning, and in that way the defect might naturally enough remain unnoticed by him. But Senior did not observe the compensation of errors, whereby Ricardo, setting out upon a definition of wages *at variance* with the popular meaning of the word, arrives at a conclusion *conformable* to the popular meaning of the word. This compensation of errors was thus effected. He set out with the definition of commodity wages; then, agreeably to such definition, the rate of wages is the proportion of the amount of wages to the entire produce; and the rate of profit, consistently with this, is the proportion of the amount of profit to the entire produce. Now, this expression for the rate of profit is *one* error. Then he supposes these two proportions or fractions to be simply shares or amounts, and not proportions, which is the *second* error. Then, in order to arrive at the proportion of these two fractions considered as shares; that is, the proportion of the capitalist's share of the produce to the labourer's share of the same; he divides one of these fractions by the other, in which process the common denominator, "entire produce," vanishes, leaving as the result the fraction, whose numerator is the capitalist's share of the entire produce, and whose denominator is the labourer's share of the said produce; which fraction is the same as that whose numerator is the capitalist's share of the value of the produce, and denominator the labourer's share of the said value—which latter fraction is the popular meaning of the expression, "rate of profit," on the suppositions—first, that the time of advance is constant, and next, that the capital is all advanced in the form of wages.

It was partly by this compensation of errors that Ricardo's system was enabled to obtain the currency and popularity which it enjoyed. Ricardo's "principle" regarding wages and profits was, that wages rose as profits fell, and fell as profits rose. He meant by the word wages commodity wages, and he supposed the entire produce constant. And on that supposition, and for that meaning of the word wages, his "principle" was right; because, if the whole produce is constant, and is divided between the capitalist and labourer, the more the one receives the less the other shall receive. But, if the produce is supposed variable, then, even on the supposition of commodity wages, the principle is erroneous, as

Mr. Senior at once observed; for both the labourer's share and the capitalist's share may increase together. But the "principle," that "profits rise as wages fall," is true, in reference to *money* wages, when we use the term profit in one particular sense—namely, when we consider profit as the price of capital employed in *paying* labour; for profit is then merely the discount which the labourer allows to be subtracted from his wages, in consideration of being paid at the time the work is done, in place of at the time the work is sold. And it was the truth of this "principle," in this sense of the word profit, and in reference to money wages, that greatly aided its reception and general currency.

Mr. Senior, restricting his consideration to commodity wages, did not view Ricardo's principle in this light, and therefore did not see how it could obtain currency with the public. He expresses his great astonishment that such a principle had received the sanction both of theoretical and practical men, alluding especially to Ricardo and to some practical men who had been examined by the Commons' Committee of Manufactures; and he wondered how such men could, in their evidence before such committee, declare "that prices are but little affected by variations in the amount of wages," "while profits are very much affected thereby." Now, the fact is, that both these propositions are true, and have been proved by eminent writers to be so, if we understand wages in the popular sense of money wages. Thus, Adam Smith shows that while increased capital is employed in paying labour—that is, in wages—and while the price of the article is thus *increased*, there is also, as a general rule, increased capital employed in assisting labour; and thus, in increasing the quantity of the article; and thus, in *diminishing* its price; and that compensating effects being in this way produced upon the price, it may happen that it will, in the result, be very little affected by a variation in the wages. And the author of the *Irish Analysis* has shown that a very slight variation in the wages may produce a very considerable effect upon the profits; for he has shown that, if the rate of profit were 10 per cent. and that a labourer received, as wages, eight-pence a day, at an interval of a year before the sale of his work, the increase of his wages one penny a day would completely annihilate the entire profit.

That Senior did not admit these truths, and was amazed at their reception, arose from the founding his investigation upon commodity wages. Adam Smith had long before expressly distinguished the two meanings of the word "wages," its popular sense as money wages, and its philosophic sense as commodity wages. Ricardo adopted the philosophic sense, and his system is greatly indebted for its reception to a compensation of errors, and to the fact that his fundamental principle was understood according to the popular signification of the words. Senior adopts the philosophic sense; and, in his attack upon the confusion caused by Ricardo's language, he falls himself into the very confusion

which he reprehends. In the very paragraph where he is successfully showing the confusion of Ricardo in using "the rate of wages" sometimes as a share, and sometimes as a proportion, he is himself causing a similar confusion by using "the rate of profit" in two totally distinct senses. And it could not have been otherwise. Any man who founds his analysis of profits upon that of wages, and adopts the philosophic sense of wages, *must*, if his reasoning is consistent, fall into confusion in his use of the expression, "rate of profit." Thus, adopting the sense of commodity wages, then the meaning of "rate of wages" is the proportion of the labourer's share of the produce to the entire produce; and, consistently with this, the meaning of the "rate of profit" is the proportion of the capitalist's share of the produce to the *entire produce*. Now, according to popular language, the expression, rate of profit, is never used in this sense. In the popular signification, rate of profit means the proportion of the capitalist's share of the produce, or of the value of the produce, not to the entire produce, but to the *capital advanced*—not to the returns, but to the advances. Hence it is that Mr. Senior, in showing the absurdity of one of Mr. Ricardo's conclusions, expresses himself thus:—"The usual supposition is, that the capitalist turns his capital once a year, and receives *one-tenth of the value of the produce*; but I think," he says, "the average rate of profit in England is rather greater, and the average period of advance rather less; for, on making inquiries upon the subject at Manchester, I found the general opinion to be, that the manufacturing capitalist turns his capital twice in the year, and receives on each operation *a profit of 5 per cent.*" Thus he compares one-tenth of the value of the produce in the whole year, with a profit of 5 per cent. in each half of the year; that is, he compares one-tenth of the value of the produce with a profit of something more than 10 per cent.; as if one-tenth of the value of the produce, and a profit of 10 per cent. meant the same thing. But one-tenth of the value of the produce, and a profit of 10 per cent. mean quite different things; they are not comparable quantities; they are altogether distinct fractions; their numerators are the same, but their denominators are different. And, in the analysis of profit, every man must fall into a similar confusion who adopts the English mode of analysis, and reasons consistently. And, hence, Stuart Mill falls exactly into the same confusion. Ricardo is no exception, for he does not reason consistently, and he avoids *this* confusion, as I have already observed, by a remarkable compensation of errors.

How, then, does the Irish analysis avoid this confusion? It inverts the order of analysis. It first analyzes profits, and then finds the analysis of wages *upon* that of profits. And although, in the resulting conclusions, wages are sometimes used in the philosophic, and sometimes in the popular signification of the word, yet the particular sense is easily seen from the context, and no consequent

error arises from the use of the word in its philosophic sense, because no analysis of profit is founded upon it.

Thus, the expression, "rate of profit," is taken in its common popular signification, as the proportion of the amount of profit to the capital employed for a given time. Then, two suppositions are made—namely, the time or interval between the payment of the wages and the sale of the work is supposed constant, and the capital employed is supposed to be all employed in the payment of wages. And all the cases are reducible to this form, when we consider *labour* as the common measure of value; just as when we consider *money* to be the common measure of value, we express the amount of a man's property (though consisting of several kinds of property) by so much money. On these two suppositions, the *rate of profit* is expressed by the proportion of the capitalist's share of the value of the product, to the labourer's share of said value.

Then, in order to determine the *amount of profit*, it becomes necessary to distinguish the different meanings of the word. Thus, profit is the price of the use of capital; now, capital is money capital or mental capital. And money capital has two uses, viz.:—to *pay* labour and to *assist* labour; so that profit, being the price of the use of capital, must, of course, have two meanings corresponding to these two uses. As to the profit of mental capital, though it is of the highest importance, and must always be considered in the results, yet it cannot be made the subject of analysis like the profit of money capital.

Considering, then, money capital as employed in *paying* labour, the amount of profit is merely the discount which the labourer allows to be deducted from his wages in consideration of prompt payment; and, in this sense, profit has a direct effect upon wages—the less the sum subtracted, the greater the sum received by the labourer; the less the discount or profit, the greater the wages. But, still, as this discount, at the common rate of discount, bears but a small proportion to the amount discounted, so does profit (considered in the sense we are now using it, namely, as the price of capital employed in paying wages) bear but a very small proportion to the amount of wages. Profit, considered as the price of capital employed in *assisting* labour, has not, necessarily, any effect upon money wages. Neither has profit, considered as the price of mental capital, any necessary effect upon money wages. And, therefore, the rate of profit of the capitalist, such profit being considered as composed of the profit of his capital employed in paying labour, and of the profit of his capital employed in assisting labour, and of the profit of his mental capital, necessarily affects the rate of the labourer's money wages only through the medium of the rate of discount. And this is the reason why a considerable variation in the rate of profit produces but a slight change in the money wages—so slight that, as I mentioned before, the reduction of the rate of profit by 10 per cent. did not raise the labourer's wages a penny a day.

Considering profit as the price of capital employed in *assisting* labour, the amount of profit is necessarily confined within certain limits. Thus, it cannot be less than the interest of the capital so employed; for the capitalist will not undertake the trouble of superintending the employment of his capital in assisting labour, if he can obtain the same return without any trouble at all, by putting his money out at interest. Again, the amount of profit, in this sense, cannot be greater than the value of the assistance given to the labourer by the least efficient machine in use for the purpose to be accomplished; otherwise, competition would reduce it to this value.

Having thus ascertained what it is that regulates the amount of *profit*, the Irish Analysis proceeds to investigate what it is that determines the amount of *wages*—using wages in the popular sense of money wages, or the price of labour. And setting out upon the principle that wages, or the price of labour, must be determined, as the price of any other article, by the demand for it, and the supply of it; and then, for simplicity sake, excluding the consideration of a variation in the supply, and thus getting rid of the question of emigration; and excluding also, the consideration of an increased demand arising from the use of increased capital, and thus getting rid of the consideration of extended markets, and of the question of free-trade as consequent thereon; the analysis shows that the demand for labour, and, therefore, the amount of money wages, must depend on the quantity and quality of the work done, coupled with a consideration of the length of interval between the production and sale of the work, and a consideration of the rate of profit during that interval. The analysis then shows that very little effect will be produced upon money wages by a variation in the rate of profit, or by a variation in the interval between the production and sale of the work; and, therefore, it concludes that the only sure and permanent ground upon which the labourer can rely for an increase in his wages is his own exertion—an exertion evidenced by an increase in the quantity, and an improvement in the quality of his work. The two other sources whence an increase might be expected to be given to the labourer's wages, and which were excluded from the analysis for the sake of simplicity, depend not on the labourer himself, namely, the sources of free-trade and emigration. But, apart from these considerations, the Irish Analysis has demonstrated that the labourer has not, and cannot have anything to rely upon for any important accession to his money wages, save his own individual exertion and good conduct.

However, if we use wages in the philosophic sense of the word, as meaning the commodities upon which the labourer expends his money wages, then, it is manifest, that whatever increases the quantity of the produce, and thus diminishes its price, must increase the wages of the labourer. Wages, in this sense of commodity wages, have reference to the labourer as a consumer;

wages, in the common popular sense of money wages, have reference to the labourer as a producer. If we wish to have accurate notions upon the subject, we must keep these two meanings distinct. If we confound them, the whole subject of wages and profits becomes one mass of confusion. For example, if I use wages in its popular sense, it is true to say that "profits have little or no effect upon wages." This I have already shown. But, again, if I use wages in its philosophic sense, it is equally true to say, that "profits have a very considerable and important effect upon wages." Thus, using wages in its philosophic sense of commodity wages, every one of the three kinds of profit of which we have spoken, separately contributes to the increase of wages. As to the first kind of profit—namely, the profit of capital employed in paying labour, if the labourer were not paid until the work was sold, in place of having his wages advanced to him when the work is done, the price of the article produced would be greater than it is, since the loss to the labourer by the delay of payment (which loss would have to be made up to him) would be greater than the amount which he permits to be deducted for discount or profit; so that this kind of profit contributes to diminish the price of the product, and thus to increase commodity wages.

Again, as to the second kind of profit, namely, the profit of capital employed in assisting labour, the quantity of produce is increased by the assistance given to labour, and, therefore, the price of the produce is diminished, and, therefore, commodity wages increased. And, again, as to the third kind of profit, namely, the profit of mental capital, the quantity of produce is increased by the application of mental capital, and, consequently, the price of the produce is diminished, and commodity wages increased.

So that, while a diminution in the rate of profit may produce but a very small increase in the money wages, as operating through the medium of the discount, it may produce a very considerable increase in the commodity wages, as operating through the medium of the price. And though this difference would not be of any consequence to a particular labourer at a particular time and place, yet it is of such consequence in our reasonings upon the subject, that if we neglect it, we may give up all hope either of accuracy in our reasoning or of usefulness in our results. But if a person would keep in view the two distinct significations of wages, and the three senses of profit according to the meaning and employment of capital, I am sure he would get rid of many apparent contradictions, and I think he would thereby obtain more readily a scientific knowledge of the subject.