Eastern Economic Journal, Vol. VI, Nos. 3–4, August–October 1980

Money and Real Wages in Economic Thought*

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The unique position of wages and labor in creating value stretches back at least to Sir William Petty in 1662, through Cantillon in 1732, in positing a par or undeviating substitution rate between land and labor. Their probe sought to obtain commensurate embodied inputs for value relations between goods containing different land and labor content. 'Labor is the father . . . of wealth, as lands are the mother.' Both perceived the subsistence real wage as making a necessary and inescapable drain on material production.

Adam Smith was forthright in propounding the dominance of labor in the perennial reproduction economy. His opening words of the *Wealth of Nations,* in those beginning days of our discipline, declare that labor is "the fund which originally supplies it [the country] with all the necessaries and conveniences of life which it annually consumes," and "according, therefore, as this produce bears a greater or smaller proportion to the number of those who are to consume it," the nation will be better or worse off. The significance of the *real* wage, and real consumption, is indelibly propounded in the passage. In the long run historical evolutionary process our astute founding father denoted labor as "the real measure of the exchangeable value of all commodities." Labor put the production process in motion; its remuneration provided a near overlap to the consumption magnitude.

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With Ricardo and Marx, and skipping their doctrines on embodied labor as the determinant of value, 'subsistence' real wages translated into real consumption and thus, bounded the residual accumulation. Hume, earlier on, and Malthus somewhat later, accepted as fact labor's *limited* consumption aptitude; accumulation was tied to capitalist saving; Malthus even venerated the parasitic prodigality of landlords as an indispensable ingredient of 'effectual demand;' he held the weird assumption that the worker lived only for bread and beer. A propensity for elegant fineries was confined solely to country squires, the landowners. Merchant capitalists were so preoccupied in their counting houses that they had neither time, nor disposition, to indulge frivolous consumption pursuits. Behold, the country was blessed by aimless wastrel landlords.

Pervading the older classical, and now part of the modern Post Keynesian tradition, are notions of real wages, dependent aggregate consumption, and capital accumulation. The shadow cast by real wages on the economic process was, for the classicists, critical and indeed, overwhelming.

Occupying the hiatus between the then and now, in the neoclassical epoch the real wage, the rate of profit, and accumulation, practically disappeared, especially in the lineage that emanates from Leon Walras who, for Schumpeter, was "the greatest of all economists." This assessment could command assent if only Walras did not commit such grave errors of omission on real wage, profit, and accumulation aspects. Many of us regard these elements, and their interactions, as the important pieces in the economic puzzles. Under the impersonality of n-products and m-factors, economic phenomena became stripped of the ebb and flow of human life; even the welfare utilitarianism of the earlier tradition, often observed only in the breach by the laissez faire inhibitions, was submerged. Markets cleared in a mass of symbols remote from worker participation. The labor market was 'just another price,' like toothpicks or peanuts, despite its dominance in cost phenomena and on product demands. One cannot find the word 'wages' even in the index of the important monetary works of Friedman.

On the price level front, given the gold standard premises of the age, both classical and neoclassical flocks were Quantity Theory captives. Gold, a stock concept, was suspended against goods, a production flow image. Augment the stock somehow, and dam the flow, thus the price level would mount.

This was a *nearly* universal view until practically our own day. Abandonment of the gold standard, and the appearance of Keynes' *General Theory*—though Keynes' assaults and the dissolution of the old gold rules are not exactly unrelated events—have driven Quantity Theory ideas to cover despite the Monetarist counterattack while under inevitable ultimate retreat. To be sure, the rearguard assaults are strong. Practical events, however, will rout their indefensible sway over central banks and officialdom.

Keynes posited the money wage as the fundamental unit of measurement; his conception also renders it the unit of account, a function once performed by gold. Obviously, changes in the average size of the money wage affect practically *all* money prices absolutely, even if the price relatives are undisturbed. Part of Keynes' opposition to gold was that enlarged demand for the metal, in conditions where its production opportunities are tightly limited, could spell involuntary unemployment, unless paper money entered as an acceptable substitute. My colleague, Paul Davidson, has recently sited the essence of the Keynesian Revolution right on this point for it destroys the automaticity of the full employment equilibrium economy.

Emphasis on the *money* wage adds a new dimension to the classical fascination with *real* wages. The average money wage, related to lesser waves in labor productivity and mark-up pricing practices, becomes the price level maker. Price level control compels subjugation of the money wage. Otherwise, money wages become the prime instrument of egregious jumps in money costs. Likewise, they govern consumer purchasing power. Money wages are simultaneously 'cost-push' and 'demand pull' in the inflation parable.

Real phenomena emerge largely—not entirely—from *real* wages, as in the Kalecki-Kaldor-Robinson approximation, which is still too little apprehended. This relates money wages and the money consumption aggregate, or the real wage bill and the real consumption aggregate. Elaborations include the Kaldor-Robinson-Sraffa themes on real investment. What are called money phenomena, such as the price level, foreign exchange rates, the demand for money, or money market rates of interest, are more accurately envisaged as money wage incidents. Ours is less a price system, and more a money wage system. Unemployment and recession reflect money supply doctrinal malaise on the erroneous conceptions of the money wage determination that still poses as valid theory. (Recently, also long ago, but after Keynes and Mrs. Robinson, I argued that economics fobs off a theory of real wages when inquiries are made concerning money wages. The theory is a doctrinal figment, to my mind.)

Deliberations on money supplies without invoking average money pay rates is as unreal as the assumption of money supplies being injected into the economy by a helicopter drop. The issues also go to the nature of money demand, and the part of money wages in the theory. The hard questions then turn from the mechanical Chicago rule for implementing the annual growth in money supplies to one of trying to rein the annual increase in money demand, mainly by excising the bulges in average money wages. Maximum production development is a less capricious phenomenon but it requires money lubricants for transactions purposes.

It is here that Incomes Policy enters; its genesis will alter the nature and scope of central banking. Once a legitimate policy apparatus is erected, the schizophrenic world of central bankers will come to an end; their life of fear will yield to some repose for they can stop flailing and wailing against inflation, devoting their considerable energies to maintaining money supplies adequate to sustain full employment, rather than chasing the inflation ghost and reporting only self-inflicted unemployment catastrophes. With Incomes Policy central bankers will be able to concentrate their minds powerfully, on preserving a functional interest rate structure to induce a judicious balance of consumption and investment sectors.

When inflation is once brought under control—as it will some day—we shall hear less of money aggregates and more of the structure of interest rates. Too, the new mentality at the central bank will lead to a mixture of real and money wage analysis.

I regard this as the significant message of Keynes. For too long too few have heeded it. Our myopia has meant that our economies, indeed our civilization, continues to pay a heavy toll in economic, political, and social disruption tottering on the brink of organized chaos.