

Bohm–Bawerk's Definition of Capital and the Source of Wages

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In his exposition of the term "capital" Professor Böhm–Bawerk briefly touches on the wages–fund doctrine, so far as to reject summarily the proposition that the means of subsistence of productive laborers is drawn from the capital of the community, although, from the point of view of the employer, these "real wages" are to be regarded as drawn from his private capital. With the distinction which the discussion establishes between social capital and private capital, this position is, of course, in itself perfectly consistent. The position is, indeed, contained in the definition of capital previously arrived at (pp. 42, 43, and 21). The ground of the position taken is the unquestioned or, at all events, unquestionable truth that the laborer is a member of society, and his consumption of products is, in a broad view, a fact of the same kind, and of like theoretical significance with consumption on the part of any other member of society. The satisfaction of wants, whether it be the wants of the laborer or of any other, is the end, not the means, of productive activity.

While the exposition at this point undeniably sheds a strong light on the question, it can hardly be said to have finally disposed of all ground for difference of opinion, still less to have explained away the wages–fund controversy, or that point of the controversy which concerns the question of the source of wages. And that controversy has been of such extent and earnestness as to raise the presumption that something is to be said for both sides of the dispute, and to leave little hope of its being finally put at rest by any other method than that of explaining away the ground of difference. For reaching this end, I believe Professor Böhm–Bawerk's exposition of capital has given us the means.

It is to be remarked, by the way, however, that there is a lacuna in the exposition at this point which seems, at least, not of first–rate theoretical consequence, and is, perhaps, the result of oversight of a not very important point, but which might afford a foothold for carping criticism. It will be best to speak of it at the outset, and put it out of the way before going on. This difficulty arises from the inclusion, as a subhead under Social Capital of "stocks of goods for consumption which are still in the hands of producers or dealers" (p. 70); that is to say, goods which have not yet passed that final stage of preparation for consumption which consists in their transfer, through the mechanism of exchange, into the ownership of the ultimate consumer.

Now, this classification may afford ground for persons unduly given to nice distinctions to take exception to Professor Böhm–Bawerk's position on the question of the source of wages that, (1) inasmuch as the payment of wages, actually for the most part, and in theory normally, is a transfer to the laborer not of the particular goods he wants, but of an item of value by means of which he may obtain the particular goods through this final productive step of exchange, therefore the payment of wages simply gives the recipient a claim on goods which have not yet passed the final stage of production, and so are as yet a part of the general capital by the terms of the definition, and which will pass that stage only in consequence of this claim; (2) that, without regard to the mechanism by which the transaction is carried out, the claim on goods, which accrues to the laborer in the payment of wages, constitutes a drain on the stocks in the hands of producers or merchants, and tends to diminish such stocks, and this without regard to the point in time of the payment, relative to the production of the goods, which ultimately go to satisfy the laborer's wants. The payment of the wages, as a matter to be considered in a theory of the

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methods of production, precedes the consumption, or the ownership on the part of the recipient, of the goods which the claim so transferred to him ultimately puts into his hands for consumption, and so is a claim that can be satisfied only by drawing on a class of goods included under the head of social capital. This criticism, it will be seen, touches a point of classification, and may perhaps be avoided without deranging the main structure of the theory.

Now, as to the theory of the source of wages, in the light of Professor Böhm–Bawerk's definition of capital. It is not too much to say that the controversy has owed much of its bitterness and sterility to inadequate definition of the terms employed, especially to a lack of accuracy in the concept of capital. The *Positive Theorie des Kapitals* has given to the concept of capital, and of its relation to other elements of economic theory, a conciseness and adequacy of which earlier speculators were sorely in need. If the distinction which this discussion formulates between social and private capital had been apprehended earlier, with the same full and clear consciousness, the means would have been at hand by which the wages–fund controversy might have been put to rest. But the completed definition of capital does not of itself dispose of the question. A further analysis in the same direction is necessary. It seems to me that economic theory is at this point in the presence of a distinction necessary to be made between "the laborer's share of consumable goods", or "earnings", on the one hand, and "wages", on the other, analogous to the distinction taken by Wagner and perfected by Professor Böhm–Bawerk between capital as a "purely economic category" and capital "in a juridico–historical sense." Wages, in this stricter definition, and private capital both are facts of usage, while the laborer's income, or earnings, and social capital both are facts intrinsic and fundamental to any theory of industrial society.

Wages is a fact incident to the relation of employer and employed. It is, in the sense fixed by colloquial use, an economic category whose scope is entirely within the theory of production as carried on by the method based on that relation; and the term is not used in precisely the same sense when the discussion shifts to the standpoint of production simply as such, still less when the point of view is that of distribution or consumption. It is by an unconscious equivocation, in shifting the point of view, that wages is identified with earnings and spoken of as an element in the theory of distribution or consumption. The laborer, from the point of view of consumption of products, is no longer "laborer": he is a member of society simply, and his share of the product of industry is the share of an individual member of society. As consumer, he is not "laborer", and his share of consumable goods is not "wages", in the strict technical sense of the term. Wages may coincide in range of comprehension with the laborer's share of the product with earnings and may likewise coincide with the aggregate of his consumption; but wages is a category having a different significance for economic theory from that of earnings or of goods consumed. The item of value, which from the point of view of production as carried on by the method of private capital as wages is, from the point of view of the laborer, as being productively employed in his own interest, earnings. From the point of view of consumption of goods produced, neither of these terms can be employed with entirely the same meaning as they have in the use just specified.

If this distinction be allowed as theoretically legitimate, it appears that Professor Böhm–Bawerk's discussion does not upset the wages–fund doctrine in any of its essential texts. The one proposition, that the sustenance of men while productively employed is drawn from the product of past industry, is of course not impugned; the other, that wages are paid out of capital, is conceded in conceding that it will hold true when capital is understood to mean private capital; for it is only then that the term "wages", in the strict technical sense, can properly be employed. At the same time this discrimination of terms leaves the position of the opponents of the wages–fund doctrine, as to this particular point, perfectly tenable; for whenever "wages" is used in the sense of "earnings", as, I believe, is invariably the case in the usage of these writers, they are undoubtedly drawn from the product of industry, inasmuch as earnings are the product, to the laborer, of his labor.

All this may seem to be a web of excessively fine–spun technicalities, but in apology it is to be said that it is also directed exclusively to a point of pure theory. And the whole controversy about the source of wages has also been in the region of pure theory, having never directly involved questions of physical fact or of expediency.