Wages-Fund Theory

The ancient theory that wages are paid out of a capital fund has been so well exploded that most economists refer to it merely as an historical curiosity.

Yet, to accept the inevitable conclusion that wages come out of production only, would lead logically to the admission that wages can be increased only by an increase in production. That admission would refute the doctrine (tacitly accepted by most economic thinkers) that wages can be determined by political, including labor union, action. Therefore, in discussing the nature and action of wages, these writers are forced into the anomalous position of talking of wages as derived from capital, even though they specifically deny the wages-fund theory.

In the "Principles of Economics" (3rd edition, 1923), by Henry Rogers Seager, a book used extensively in our college economics courses, we find the following:

> "In the guarded way in which the theory (wages fund) is here presented no particular objection can be raised to it, since it amounts merely to saying that wages are for the most part paid out of capital, that wages in the aggregate cannot exceed that part of capital assigned to wages or the wages fund, and that consequently, the average rate of wages depends upon the proportion between the wages fund and the wage earning population. That real wages are, literally speaking, withdrawn from the stocks or capital of retail dealers and in this sense 'paid out of capital' was shown in Section 100."