

Lecture 2

Wages



Learning outcomes



I. ORIGIN OF WAGES - CONCEPT OF SUBSTITUTION



- When everyone works as a farmer on his own field, he works for himself, there is no wage to be paid out.
- He will not work for others, in either private or public employment, unless he could receive a **return** equal to what he could have got on his farm.
- This is the original of wages.



- *“The officers of the lowest grade in the feudal states had an emolument equal to that of the husbandmen whose fields were of the highest quality; equal to what they would have made by tilling the fields.”*

--- Book of Rites, Royal regulation

- Mencius describes wage as the “substitution of tillage”
(代其耕)



Wage
Salary



祿

Grain



穀

Unit of
measure
for grain



石

$$\text{祿} = \text{穀} = \alpha \cdot \text{石}$$



- In ancient China, wages are expressed in grain. So wage is grain.
 - Under Chinese wage system, if someone does not work for himself as a farmer but work for others to receive a wage, wage in the form of grain is a substitute for tillage.
- In the Confucian writings, all public officers are regarded as labourers, and all their salaries as a substitute for tillage.



- Instead of working on his own farm, one can work for the government, or private persons or enterprises.
- Mathematically speaking, all output and productivity is based on equivalent farming output, so that salaries are a substitute for tillage.



II. THE PRODUCTIVITY THEORY



- This means that the amount of wages of the worker should be according to the product which he contributes.
- We focus on two topics:
 - How to attract workers with wage justice
 - Principle of division of labour



II.1 Wage justice to attract workers

- *“By daily examinations and monthly trials, and by **making their rations in accordance with their labours**: this is the way to encourage all the classes of artisans.”*

--- Book of Rites, Doctrine of the mean

- Attraction is realised by justified wage, not overpaying.



- Problem with overpay
 - If poor labour were as well paid as good labour, there would be no encouragement for all classes of artisans. The good worker would be disappointed, the survival would be of the unfit, and the standard of workmanship would be lowered.
- Wages should be directly linked to productivity, and it is beneficial to long term prosperity.
- The 2007-2008 financial crisis is a good example of pay-productivity mismatch.



- The principle of productivity-base remuneration also applies to mental workers.
- According to Confucius, the remuneration to mental workers, such as government officials should be strictly related to the “value of their words”. As the ruling body act based on officials’ recommendation, their words impact national development and people’s life.
 - Reading: *Excerpts from Book of Rites, Record on example*



- In the *Record of prevention* of *Book of Rites*, Confucius raises an exception to this rule of wage, and says that, a superior man will refuse to accept position and remuneration that are higher than his worth, but not those below. This way, the superior man :
 - sets the tone for the relative importance between ethics and reward
 - lead to an ordered society
 - Reading: *Excerpts from Book of Rites, Record of prevention*



- But we must discuss this further
 - Accepting reward less than one's worth comes with a condition: **It must always have absolutely positive impact on the society**
 - *Liaofan's four Lesson, lesson three*
 - Story about Zi Gong who declined the government's award for rescuing captured citizens
 - Story about Zi Lu accepting reward after save someone from drowning
 - Reading: *Excerpts from Liaofan's Four Lesson, 3. The way to accumulate merit*



II.2 Principle of division of labour

- In Confucius principles, division of labour is very important for society, and all classes are productive.
 - Farmer
 - Artisan
 - Merchant
 - Political officer
 - Moral teacher



- Some may argue that the ruling classes do not produce anything, hence they are not productive. Let's take the relationship between the governing body and the governed as an example:

Infrastructure / Market place /
Schools / Hospitals

Local
government

Farmers
Miners
Scientists etc.

Food / Raw material / Research
output



- Under the concept of substitution of tillage:
 - The governing body simply exchange their services for food from the farmer, as they cannot cultivate the land at the same time.
 - They are supported by the governed, and do not oppress the people.
 - The same principle goes to tool makers who exchange their products for grains.
 - Economically speaking, the relationship between the ruler and the subject, manager and employee are simply derived from **division of labour** and **expertise**, not a caste system.



- Read the excerpts from *Mencius (Teng Wen Gong i)* for an explanation of why political officers are also productive as farmers.
- How about the productivity of moral teachers? They do not work in the field or produce anything. Do they deserve to get paid?
 - Read the excerpts from *Mencius (Teng Wen Gong ii)* for an explanation of why moral teachers are also productive as farmers.



- In short, by productivity, Mencius means utility, and not merely production of things. Since a moral teacher produces a great amount of social utility, he is justified in receiving a reward from society.



III. STANDARD AND SCALE OF WAGES



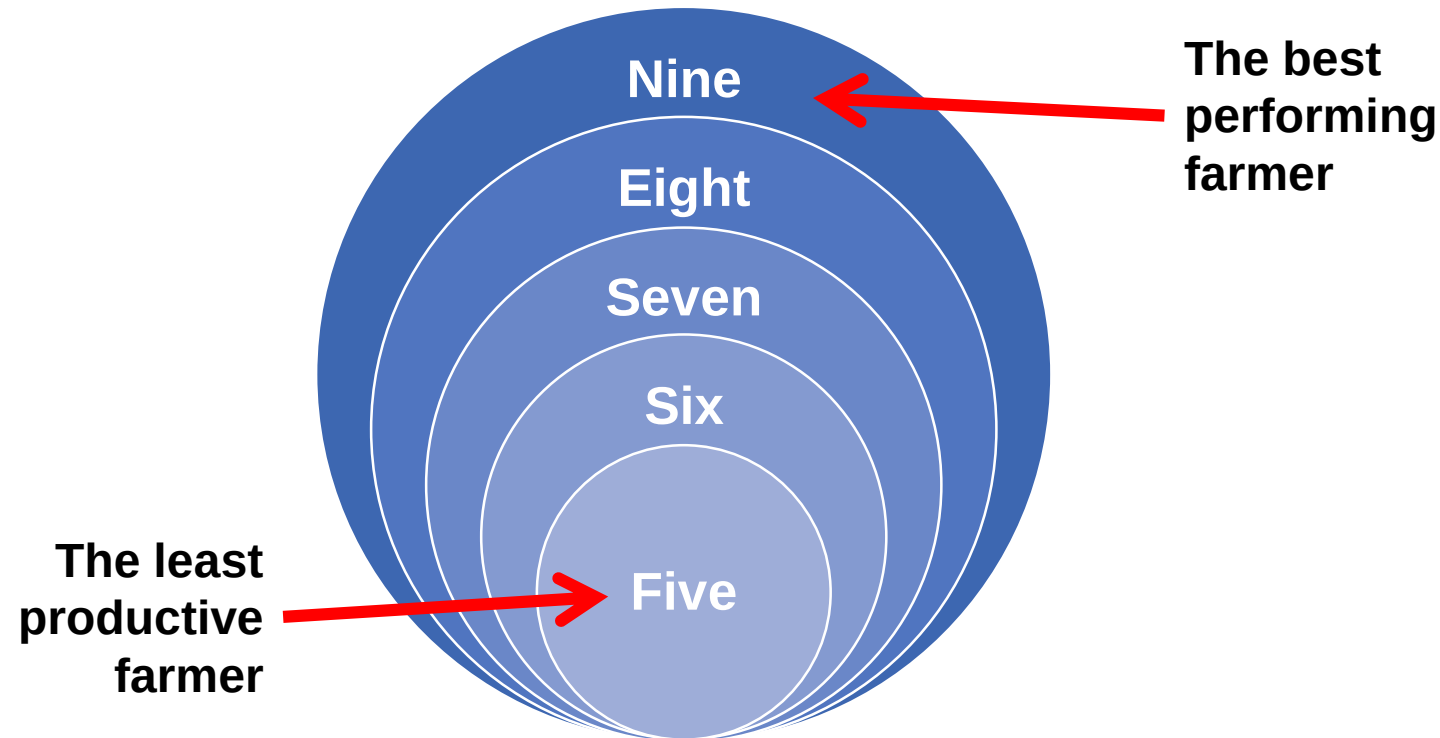
III.1 Real wages

- In this chapter, we attempt to answer the question from lecture 14: how do Confucians measure the amount of worker's contribution and productivity?
- Recall that wages are a substitution for tillage. The products of the farmers are therefore the baseline of wages.



- The quality of farmer's output is divided into 5 grades
(*Book of Rites, Royal regulation*):

No. of person supported per output of 100 acres farmland



- The above is the theory of real wages and it holds true in all places and all times.
- From there emerged the concept of minimum wage.
 - Richard Cantillon (1680-1734) suggests that the poorest common labourers must earn at least double their own maintenance, in order that one with another they may be enabled to bring up two children (*Wealth of Nation*, 1776)
 - Mencius and *the Royal regulation* define the minimum wage as supporting five persons.



III.2 Scale of wages

- Both Mencius and Henry George (1839-1897) uses farmer's output as benchmark for other work.
- *“The condition of labour in these first and widest of occupations determines the general condition of labour, just as the level of the ocean determines the level of all its arms and bays and seas.”*

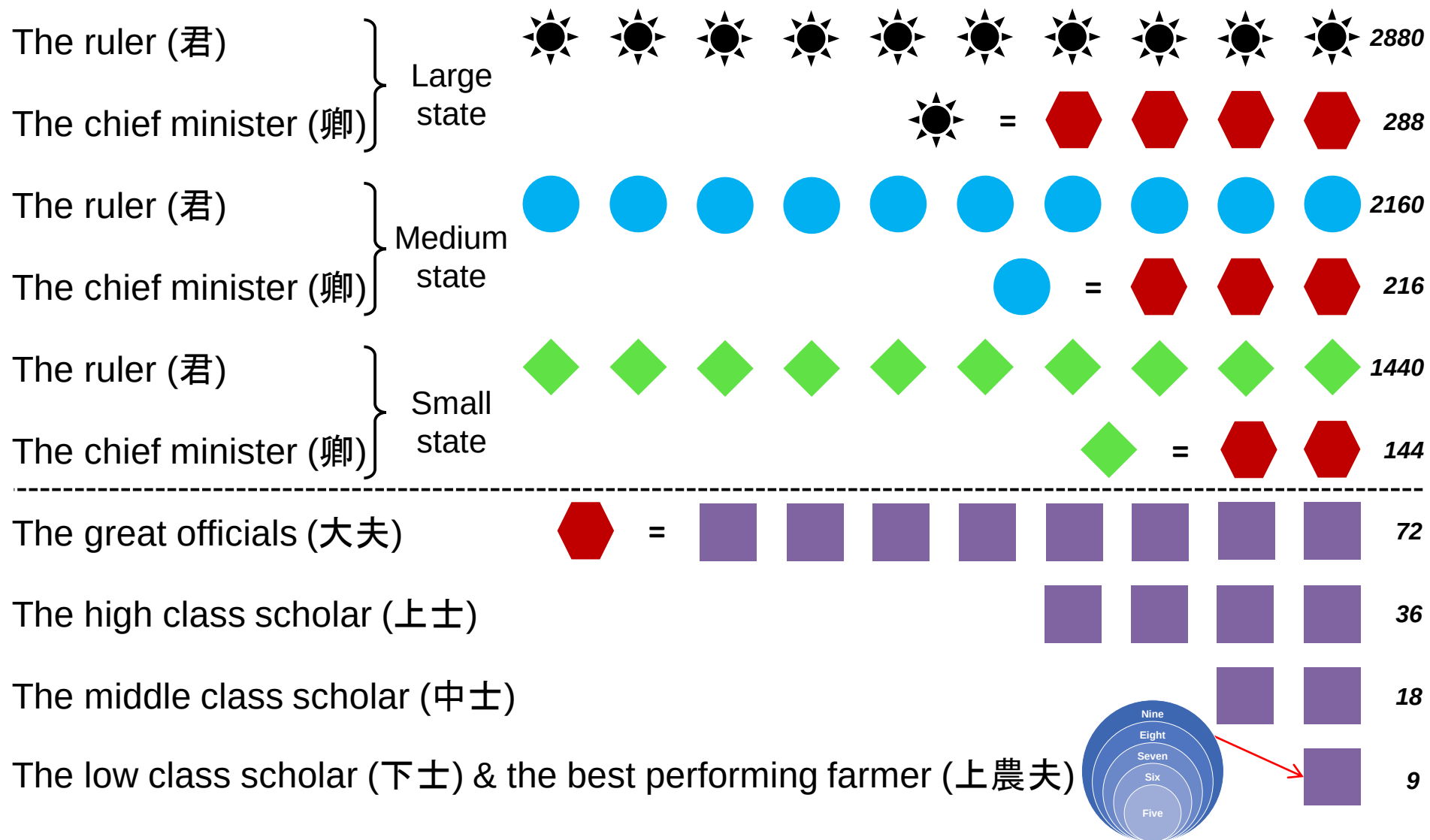
--- Henry George, *Social problems* (1883)



- Focus on the wage system of government officials.
Based on the principle of productivity, since the good government official can exert high social impact, the system is based on the best performing farmer.
 - Reading: Excerpts from *Mencius*, *Wan Zhang ii*; Excerpts from *Book of Rites*, *Royal regulation*



Salary of all officials as multiples of no. of persons supported by the best performing farmer



IV. EDUCATION AS A SOLUTION OF THE WAGES PROBLEM



IV.1 People are differentiated by education

- The wages are clearly unequal among different labour



- How do we solve the problem of wages and distribute wealth justly?
 - The solution is education.



- *“The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education.”*

--- Adam Smith, *Wealth of Nation* (1776)

- *“Confucius said, ‘Those who are born with the possession of knowledge are the highest class of men. Those who learn, and so, readily, get possession of knowledge, are the next. Those who are dull and silly, and yet compass the learning, are another class next to these. As to those who are dull and stupid and yet do not learn - they are the lowest of the people.’”*

--- *Analects*, Ji Shi



- “Education” in ancient China has different focus from its contemporary sense.
 - Contemporary: heavily focused on technical skill, job oriented, competitiveness enhancement, profit driven.
 - Ancient: mainly ethics oriented, principle of harmony, reciprocity, causality, virtuous conduct, human nature, different methods of achieving enlightenment.
 - The selection of officials to the government is largely related to the successful demonstrate of superiority in these areas.

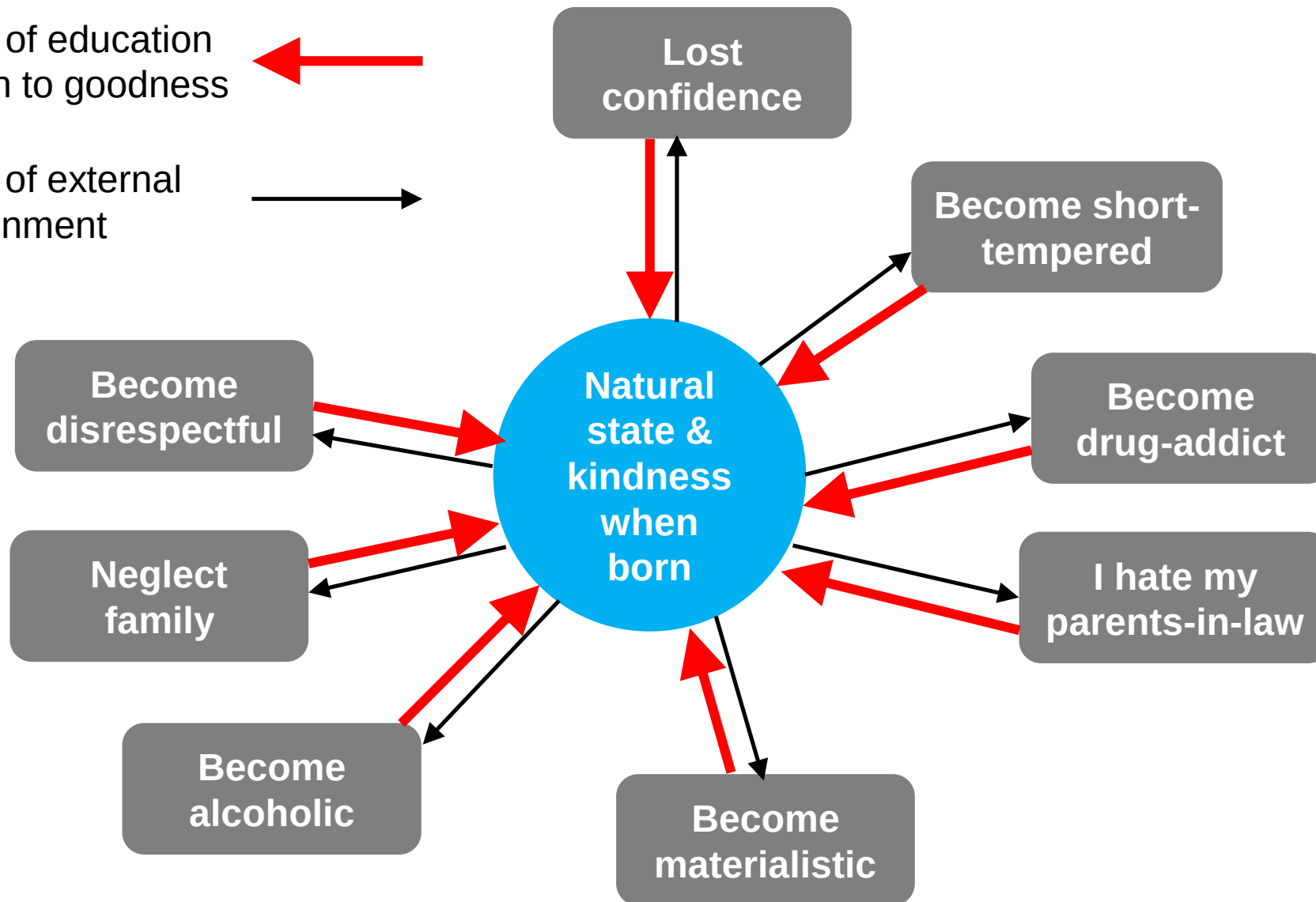


- The first eight sentences in the *Three-character Canon* summarise the entire philosophy and methodology of education used by ancient sages of China.
 - “Men at their birth (人之初),
are naturally good (性本善).
Their natures are much the same (性相近),
their habits become widely different (習相遠).
If foolishly there is no teaching (苟不教),
the habits will deteriorate (性乃遷).
The right way in teaching (教之道),
is to attach the utmost importance in thoroughness (貴以專).”



Force of education
Return to goodness

Force of external
environment



- In short, technical skills are much easier to master than self-cultivation and ethical superiority.
- The emphasis of the former combined with a lacking of the later will lead to total destruction of the world, not to say economic life.



IV.2 Education, wealth, and human standard

- Leaving aside the difference between contemporary and ancient education, the following deduction is clear:
 - Education → standing of man → wages
- Confucius taught Zi Zhang that, education is a way of obtaining official salary.
 - Reading: *Excerpts from Analects, Wei Zheng*



- Confucius points out that, although education is not for the sake of getting a salary, it is the result.
- According to Mencius and Xun Zi, education is a way to restore inner goodness of people, and anyone can be a great ruler like Yao and Shun.
 - Reading: *Excerpts from Mencius, Gao Zi ii; Excerpts from Xun Zi, Xing E*

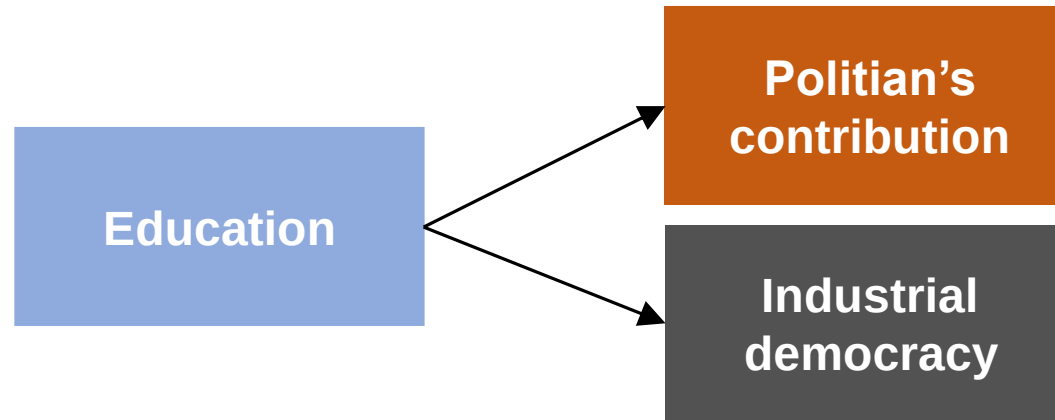


- For the Confucians, the purpose of education is not simply to obtain financial reward, more importantly, it is a way to improve one's social standing.
- *“Although they live in a shabby residence, no one dare to be disrespectful to them, because they possess the true knowledge.”*

--- Xun Zi, Ru Xiao



- To sum up, education is fundamental for both official positions and skills development.



- More importantly, the government must **maximise** the potential of **equal opportunity** of receiving **proper education** for everyone.
- Proper education must return to ethics.

