INTERPRETING WAGES ACCOUNTINGS I

T he first seventeen essays in this series are meant to provide a context for a forum[1] discussion of that troublesome section 3 of *Insight* chapter seventeen, on "the Truth of Interpretation."[2] But obviously, the context can be enlarged, and might I not say that it can be enlarged exponentially?[3] This is true, even if one stays within the precise zone of functional interpretation, where, peculiarly, one does not aim at expressing knowledge of "history (1) that is written about."[4] The aim here is, if you like, a matter of nudging us towards lifting Joseph Schumpeter's *History of Economic Analysis*,[5] on a particular topic, into the new context of functional collaboration. It is to be a three-part effort.

However, I do not wish to overly complexify our present efforts. Two contexts to note in passing help to make this clear. There is the first context, introduced early in this series of essays, the context of my teaching a first year course in mathematical physics.[6] There is a second context of an essay of the 1990's, "Work in Redress: The Value of Lonergan's Economics for Lonergan Students."[7] Both these contexts, then, point to interpretation as described in the first two paragraphs *Insight* chapter 17 section 3 that is our central interest. There occurs here a verbal flow from me to you. It begins now, with a quotation from that beginning of Lonergan's troublesome section.

> An expression is a verbal flow governed by a practical insight *F* that depends upon a principal insight *A* to be communicated, upon a grasp *B* of the anticipated

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[1] "[Interpretation](#)" is an open online forum available at: http://www.philipmcshane.org/forum.

[2] *Insight* 585–617. I quote the title of the section from page 585. Does it not give one pause?

[3] Patrick Brown's article, "Interpreting Lonergan's View of Method in 1954," *Seeding Global Collaboration*, edited by Patrick Brown and James Duffy, Axial Publishing, 2016, 45–80, centers on such a reach of Lonergan expressed in a letter to Frederick Crowe that year.

[4] *Method in Theology*, 175.

[5] Oxford University Press, 1954; 7th printing 1974.

[6] See *Interpretation* 2, "Some Contexts for the Interpretation Series", note 7.

[7] The essay is chapter one of the *[The Redress of Poise: The End of Lonergan's Work](#)*, written between 1990 and 1996.

audience's habitual intellectual development C, upon a grasp D of the deficiencies in insight E that have to be overcome if the insight A is to be communicated.[8]

The principal insight A to be communicated is the difficulty of getting into 60910 in the task of interpreting any normative account of wages. Is the addition of *normative* restrictive? Oddly, no: within ancient or modern straight accounts of wages paid there is an operative norm, whether we are dealing with Egyptian Pharaohs or Canadian finance ministers.

I can go on here, in my expression, simply by referring you to what follows in Lonergan's account of the problems associated with A and B and C and D and E, with primes and double primes. Don't rush there now: simply pause over the final words of the section: "It has to invent some technique by which its expression escapes the relativity to particular and incidental audiences."[9] It, of course, is you and I, puttering along towards Lonergan's genius leap. But now I am mixing two genius leaps, which—does it not seem to you?—seems quite silly. But my grasp B of C, your intellectual development—you are, after all, reading this with an interest in Lonergan, even if in opposition to what I stand for—is that you have a "historical sense" that his efforts both in hermeneutics and in economics are of possible or even likely significance for the future?

What about my grasp D of E, your deficiencies in insight, that have to be overcome? I would have us both note that, strangely or not at all so strangely, your—D^u—grasp of your deficiencies, E^u, is not as good as mine, in my W_3 mibox. The expression of the first seventeen essays in this series perhaps convey that. Might your version of them, entertained now in fantasy, be an advancing corrective of mine? Well, I would hope so, if your expression is of a decent advanced stage of the positive Anthropocene age.

In that age there is to be a quite new communal AbleTower version of Friedrich Schlegel's claim: "A classic is writing that is never fully understood. But those that are educated and educate themselves always want to learn more from it."[10] That cloudy claim of a rich historical sense is to be replaced by a Tower-shared scientific precision regarding ontic and phyletic

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[8] *Insight*, 585.

[9] *Insight*, 587.

[10] Quoted by Lonergan in his section on Interpretation, "Understanding Oneself," *Method in Theology*, 161.

growth in meaning in the characters of history and in the character of history (1) and (2), "distinguishing the successive stages of this, the greatest of works."[11] Are we not back here at the final five words of our problem paragraph, 60910: "fuse into a single explanation"; Fuse into a Single Explanation?

Might you now add the fantasy of such a fusion with regard to single page, page 55, of *For a New Political Economy*?

And so, we turn to a lesser fantasy, but one that is a push towards a new viewing of pages of Lonergan. Let me parallel, helpfully I hope, our effort here with the bigger and inclusive effort mentioned in the seventeenth essay. We pose there the question, what is G^i_{jk}? Here we ask—yes, I am pushing you to thinking parallel—what are the G' and G'' that occur on the first line of page 55? (The page is reproduced below on page 7).

The page starts with "Hence", and the reference is to the pages before in the volume. I am not going to presume that you even have the book, much less read the first 54 pages. My hope is that you have already read, or are willing to read, the elementary reflection by which I moved from the standard flow-diagram of economic text books to the flow-diagram invented by Lonergan. Indeed, it is best to put in here, as an Appendix, the version of the presentation that is chapter 2 of *Profit: The Stupid View of Donald Trump*. You find then, near the end of the chapter, my regular presentation of Lonergan's flow-diagram, and so find G' and G'' in context.

I find myself now musing over that paragraph from *Insight* 585, but thinking back to that course in mathematical physics of 1959–60, when the chair told me that I would have good year if I lectured above the heads of my audience for a few weeks and thus cleared out the class. So, I arrive at my present twisted version of the insights B and C written of by Lonergan: "a grasp B of the anticipated audience's habitual intellectual development C, upon a grasp D of the deficiencies in insight E that have to be overcome if the insight A is to be communicated." If you are not up to the effort needed in the beginning of the new elementary economics, then you are, sadly, not part of the relevant audience.

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[11] *The Triune God: Systematics*, *CWL* 12, 491. History (1) and (2) recalls again the beginning of chapter 8 of *Method in Theology*, but there is a nudge towards an interweaving of mibox and MIBOX in the "five C" embracing of being.

So here you are, now, reading on after a venture into the Appendix, or having already worked on it sufficiently. But please do contact me with your difficulties if you do wish to push on: pmcshane@shaw. That was quite normal in my elementary class: helping the willing to overcome the cultural shock of having to think in the mode of seeking science.

My expression here fits in with my grasp D of deficiencies to be overcome. They are deficiencies that I had to face myself in my first reading of Lonergan's economics at the end of the 1960s. Yes, you have read through, finding that the names i_2 and m_1 in the elementary diagram are replaced, in the fuller diagram, respectively, by G"O" and G'O'. They are what Lonergan calls *crossovers*. The clue to the meaning of the two Gs lies in the names i_2 and m_1. Of course, you thought that out to some extent when you worked on the Appendix. Forget the complications of the middle of the later diagram: yes, "obviously"[12] the people in the top circuit have to eat etc.; the machines in the lower circuit have to be occasionally replaced. So, we have surplus "eating income", $i_2 =$ G"O" and—[a maintenance thing]—$m_1 =$ G'O'. In words, a fraction of the outlay of the surplus circuit goes to the basic circuit and a fraction of the basic circuit's outlay goes to the surplus circuit. "Goes to": we are talking about this going in an odd way that I leave you to ponder over. How normative is our talking? And then we ask, how crazily normative is it? But a little thinking brings us to grasp that, however the goings and comings vary, it has to be true, if the flows in the circuits are to continue in some steady way—forget invention, population—and job—changes, etc., etc.—then the two crossovers have to wobble round equality.

Here my grasp B of your deficiencies E leads me to a very strategic pause for both of us over both small and large deficiencies. The small first: you were unlikely to have been thinking concretely of population, jobs, etc.: am I right? Indeed, it is tough enough to make sense, line by line, of the moves: the moves from the single diagram of the beginning of the Appendix to the first four-cornered diagram, where the absence of middle means we are not including money-lenders or pawn-brokers in our explicit thinking. But now there is also the big

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[12] The word "obviously" here hides a deep challenge of adult growth which is weaved into these essays of interpretation. The next, final note here points to an aspect of the challenge. It is the challenge of a spiraling contemplation into the unknown, a spiral of mind and molecules. You will find, in *Interpretation* 20, a rather comic note 9 on "obviously."

deficiency. You would be the odd man—or lady—out if you had carried the title of the essay in your head all the way through it to breathe a sigh of relief with my mention of eats etc. to buy: finally, wages turn up as a topic! And you would be brilliantly odd if you were now able to say, "Yes, I can see where this all leads to a quite new way of reading the story of accounting—in all its senses—for wages."[13]

We need a few little jumps here to get us to the end of this first part of "Interpreting Wages Accountings." First we need to pause over the flowing identity of outlay with income. O, outlay, is on the way to being spent as income. The flow 'down' is on its way to being spent on consumer goods; the flow 'up' is on its way to buy replacement machinery. If either is stopped or modified "on its way," then the flows get shaken out of efficiently operating: you think? So we end up with a normative suggestion that is to be the heart and soul of future economics and the accounting of and for wages: let us print it boldly.

> **The fraction of basic money-flow going to maintenance from and in the basic circuit has to be equal to the fraction of money-flow going to consuming-used wages in and from the surplus circuit.**

A final bit of juggling. We have the "has to be claim" $G''DO'' = G'DO'$ and we can write this equivalently $G''DI'' = G'DI'$, going further to reach the equivalence $DO'/DO'' = G''/G'$. In the previous section, 28, of *CWL* 21, there is defined—it is its title—The Normative Proportion. It is DO'/DO'', and of course it is equal to G''/G'. Don't let the name bother you: it occurs on the third line of the page we are attempting to read, page 55.

That final equivalence 'tells us'—how? we are going to ask in Part II—that the ratio of the flowing money in the basic consumer circuit is the same as the ratio of the two fractions G'' and G'. Only in Part 3 will the task be faced that is lurking in the title.

When I wrote "we are attempting to read" I meant, alas, that you are now going to read, if you have the time and the commitment to the effort. This page-reading is an effort to

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[13] My problem here is to keep things short. I rely on your interest to follow up the topic, to get some light on the history of remuneration that we are, eventually, to try to lift into a genetic perspective. An odd little book I have in front of me at the moment has an unusually abundant index on wages. It gives a Marxist perspective. *Inflation under Capitalism Today*, edited by S.M. Nikitin, and translated from the Russian by Jane Sayer, Progress Publishers, Moscow, 1980.

understand **what Lonergan is getting at**.[14] How will you do at this, without my help? Think of this challenge as a normal one in classes such as that in mathematical physics described earlier. I would end a class with an assignment or three that could well take them many hours of stressful work. In the following class we would push on together out of the muddles we had generated in the intervening days.

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[14] We shall be hovering over the same point at the end of the next essay, and in Interpretation 20 move into a quite new spiraling with regard to our chosen page, page 55 of *For a New Political Economy*. He spent two more years "getting at" our bold-faced sentence, or rather the geohistory of its object.

Hence, writing the values of G' horizontally and the values of G'' vertically, we place in columns the corresponding values of DI'/DI'', that is, of the normative proportion.

G'	50%	20%	10%	5%	1%	0.1%
G''						
50%	1	2.5	5	10	50	500
80%	1.6	4	8	16	80	800
90%	1.8	4.5	9	18	90	900
95%	1.0	4.75	9.5	19	95	950
99%	1.98	4.95	9.9	19.8	99	990
100%	2	5	10	20	100	1000

As the table makes clear, a variation in G' is much more significant than a variation in G''. If G' were 10% and G'' were 90%, then G' moving to 5% would advance the proportion from 9 to 18, but G'' moving to 95% would advance the proportion from 9 to only 9.5. Inversely, when G'' is 90% and G' is really 10% but estimated to be 20% by over-zealous depreciation charges and by depressed wages, then a normative proportion of 9 is given a monetary distribution corresponding to a proportion of 4.5. The result is an overproduction or an insufficient purchasing power or a maldistribution (or whatever it is safe to call it, for superficial economists fancy the thing cannot exist) that generously slices off about half of existing economic activity. We say 'about half' for the proportion 4.5 is a relative term: secondary activity may increase, and then the proportion is four-and-a-half times something greater than what it was nine times greater; on the other hand, as eventually will be the case, secondary activity may decrease, and then the proportion becomes 4.5 times something smaller than before.[2]

2 The odd English of the text is expressive of a creative typing satisfied with accurate awkward compactness. Its revised expression cannot be brief. Let us consider an economy in which basic activity is nine times that of surplus activity. Now add a sharp eccentric shift, from 10% to 20% of total basic income, in basic 'investment money' (prescind from planning, lags, etc.). This will effect an initial lift in surplus activity, but a drastic cutback in basic flow. That flow is 'now' 4½ times greater than the increased surplus flow: it had been nine times greater than the unincreased surplus flow. However, there is a surplus contraction on the horizon: then the basic becomes 4½ times greater than the decreased surplus.

APPENDIX: THE KEY DIAGRAM[†]

So I begin by taking a leaf out of Mankiw's text, the leaf that contains his fundamental diagram of single-economy circulation. The diagram is repeated in various forms throughout his text. Indeed, it can be found in any text of economics, what I identify and sketch below in its simplest form, the household-to-firm diagram.

In another introductory text I give various versions of it, versions that include banking, taxing, even moving beyond to the relating of economies.[1] But let me not distract you here with complications. We try for a first step towards a new science of economics by plunging into the presentation that I have used as a beginning in recent years. I quote from a previous work, then return, at the conclusion of that presentation and your efforts with regard to it, to the task of fuller contextualizations.

The Key Diagrams[2]

We start now with the standard diagram of current economic texts and move fairly smoothly to a diagram that points to that new science of economics that is to save us from global disaster. I wish you to come with me slowly and quietly from the standard diagram, through two transition diagrams, to the central scientific diagram of future economics.

We start with the standard Household to Firm diagram of the first weeks of elementary economics, with the obvious meanings for the symbols of Households, Firms, income, and demand:


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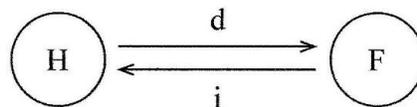
† Chapter 2 "The Key Diagram" in Profit: The Stupid View of President Donald Trump (Vancouver: Axial Publishing, 2016), 7–11.
[1] The introductory text, referred to already but best named again here is Philip McShane, *Economics for Everyone: Das Jus Kapital* (Vancouver: Axial Publishing, 1998).
[2] Philip McShane, *Piketty's Plight and the Global Future* (Vancouver: Axial Publishing, 2014), 11–14.

There is an easy way to add the second type of firm, which supplies not consumer goods, but stuff for the first type of firm: maintenance and innovative stuff, which I'll symbolize as m_i. (Think of m as pointing to maintenance and more!! I am thinking of innovation of course.) Here you are:
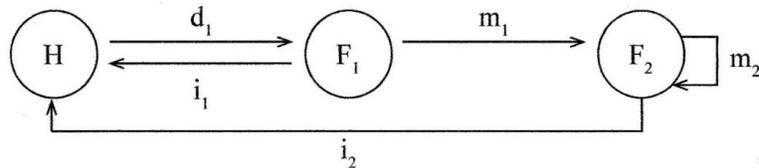

Notice now that F_2 is in the same boat as F_1 as regards maintenance and innovation. But we don't want to add F_3, F_4 … I won't go into the simplification of packing in all the series of F_n into F_2. I just claim here that it works empirically as grounding decent measurements of business flows.

But how do we get that into the diagram?
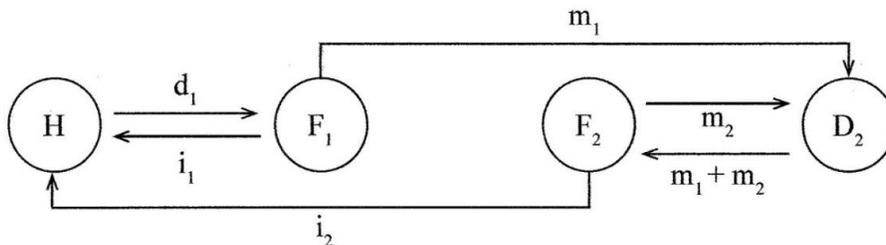
We can make this neater by thinking of two types of demand and, if you wish, replacing H (Households) by D_1, with flow d_1 and making, e.g., d_2-type flowings from D_2, the demand of firms for capital stuff, marked in the diagram as m_2. Next, we find that we get a more workable diagram by laying the transactions out in a square and adding the flow lines:
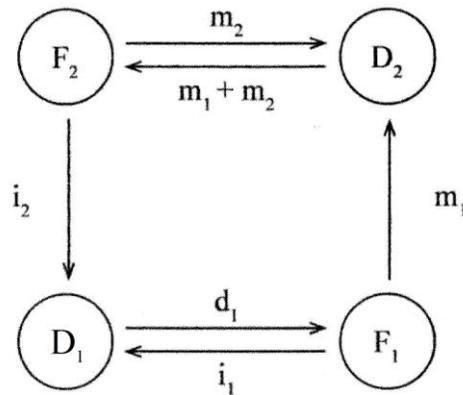
This would be the beginnings of a new economics of measurable flows, one that would yield norms of financing, of profit in both normal and innovative economies, etc., etc.[3]

The Full Diagram[4]

The total of initial payments, income, is clearly identical with total outlay in the chosen interval. DI' + DI" = DO' + DO". But now I would ask you to put aside other problems and pause over the notion of crossover. We are back, but freshly, at the diagram at the end of the previous page, pushing you to settle into the diagram of the page to follow here. A firm's outlay

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[3] And I should add here—see the following note on the problem of compactness and incompleteness—a note, a high note indeed, a high 'see', relating to the suggestion about wages in the second paragraph of the Preface. There are to emerge shocking norms of workers' incomes. It is amazing how we have gone on so long accepting putterings and utterings about minimum or living wages. But there is a long history to this that would sublate Piketty's hefty analysis: tricky work that involves the difficult shift to two-flow analysis.

[4] *Piketty's Plight and the Global Future*, 43–44. I decided to carry forward here rather abruptly. See note 7 below on a classroom version of the initial topic. My problem throughout the book is the avoidance of detail such as was mentioned in the previous note. My experience of tutoring this stuff to individuals is that one needs the sort of detail that the last note pointed to, and details, e.g., how to think out transition payments, half-made goods, etc., and the manner in which business people handle turnover lengths of production in figuring out financing and credit. My problem brings to mind Bernard Lonergan, in his last years, getting serious about an introductory text. I am led to quote my conclusion (p. xxxi) to my lengthy Introduction to *For a New Political Economy*: "Certainly, the work of the last years of his life included pointers towards an introductory primer. But the massively innovative primers that would meet millennial needs, 500-page texts of empirically rich, locally orientated, normatively focused non-truncated writing, are distant probabilities." Added there, ending the Introduction, is a note on textbook traditions. At all events, I risk adding a dense completeness to this short chapter, and variations in terminology. But the key point has already been made: the need for a big empirical leap beyond the single flow analysis, to a double flow analysis.

involves a split: instead of the i and m of the first diagram I note that split, in the second diagram, as a fractional split of DO. In the next chapter we shall connect the split and its complexities to innovation as well as maintenance, but here stay with the 'static-dynamic' of a fixed economy. Then, we think of G' as the fraction of outlay that goes to maintenance in a basic firm. A quirk of symmetry leads to using $(1 - G'')$ as the fraction of outlay that goes to maintenance in surplus business: Then you have crossover-ratios G' and G'' for the two circuits, G' being for basic-circuit maintenance and G'' being for surplus-circuit wages. These are to be, of course, zones of focused interest in future empirical economics.

Finally, I add into the diagram the redistribution function that I associate with secondhand trading, but think of it now in terms of money flows, which I simply mark into my diagram as four lines outgoing from the redistribution area: D', S', D'', S''. I put that diagram in here immediately. It is my version of the final diagram concocted by Lonergan in 1944.[5]
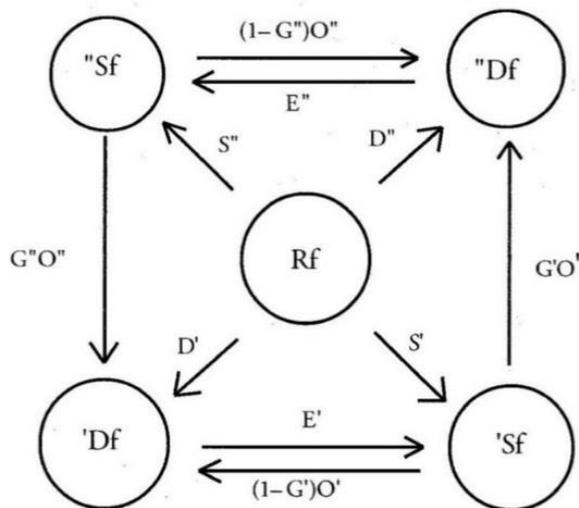
Such is my presentation from *Piketty's Plight and the Global Future*. In pushing on towards what I call the final diagram of Lonergan's single economy without trans-national trade I know that I have pushed too hard, given you too much to get a grip on without a great deal of

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[5] The diagram appears on page 258 of Bernard Lonergan, *For a New Political Economy*.

illustrative work. So I would ask you to focus on the simple aspect of the elementary diagram that allows you to do what I call the reversed Newtonian jump.

Think, now, as I suggested in chapter one, of being under the apple tree, locked into a long-established culture—it is a matter of images, of neurodynamics[6]—where you think of the movements of earthly bodies as different from heavenly bodies: 2 sets of laws, of rules. Getting the bright idea that there is only one set of rules: that would be, and indeed was, the beginning of quite a shake-up. Perhaps it is useful to pause here over a therapeutic parallel. Your therapist gets you to a basic insight: it is quite another to get that insight effectively into one's nerves. In the economic case there is an accepted culture of there being one flow of goods and money from which laws have to be developed. What a jump it is psychically to the insight that there are two flows! Psychically? What I call the intussusception of the two flows as dominating one's further thinking comes only as one pushes on into the strange new world.

I do not wish to enlarge on any of that in this introductory chapter. The next chapter introduces a helpful illustration and, speaking from my own experience of struggling into this strange realism, and from teaching it at different levels, one must ramble back and forth, puzzling concretely over real situations. I recall now one experience of teaching a grade 12 economics class where I used very successfully stories of my own teen-years, working in a small bakery owned by my father: you might find it a useful back-up to this compact chapter.[7] Furthermore, you'll find yourself puzzled over the various connecting lines in the full diagram and the distinctions that are implicit there. Especially tricky is the zone that I have left very much in the air, the zone named by the symbol *Rf*, which stands for "redistribution function." You may think of it as the world of banking, but it is in fact a large mad contemporary world that includes the goings-on symbolized by the name *Wall Street*.[8] For the present it is enough

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[6] We touch on that topic further as we go along, especially in chapter 13, "The Faculty of Culture." But there is no harm in you pausing now over the notion that the dynamic patterns of your cranial molecules can be locked into a view.

[7] The lecture is reproduced as chapter one, "The Key Elementary Class," in my *Sane Economics and Fusionism* (Vancouver: Axial Publishing, 2010).

[8] You might, at some stage, like some background on Wall Street: see Jeffrey Little and Lucien Rhodes, *Understanding Wall Street* (New York: McGraw Hill, 5th edition, 2010). For an up-to-date relevant comment on this mad world, see Mervyn King, *The End of Alchemy: Money, Banking, and the*

for you to hold to the notion that the four symbols S', D', S", D", refer to flows to and fro from banks to respective areas in the economy, as well as flows of secondhand trading. Think, for instance, of D' coming to the 'Df (read the three components of the symbol as "basic demand function") from Rf as a loan for buying a house.

Future of the Global Economy (New York: W.W. Norton, 2016). Neither book is in our ballpark. For further comments on King's book, see note 7 of chapter 4 below, page 20.