Funding the Future

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This is the first of a series of posts that will ask what the most pertinent question raised by a prominent influencer of political economy might have been, and what the relevance of that question might be today. There will, in due course, be a list of all posts in the series at the end of each entry. The origin of this series is noted here.

In 1914, Henry Ford shocked the business world. He announced that his factory workers would be paid $5 a day — double the going rate. To most employers, this was lunacy. Wages were seen as a cost to be minimised. Ford's logic was different. If workers couldn't afford the cars they made, there would never be a mass market for automobiles. By raising wages, he wasn't giving charity; he was creating customers. He was also, admittedly, seeking to reduce union power.

That single decision did, however, become folklore in economic history, but not because Ford was a benevolent capitalist. He was hard-headed. He understood a paradox that capitalism itself tries to ignore: labour is both a cost in the production ledger and the foundation of demand in the wider economy. Ignore the second role, and you collapse the market you depend upon. This duality cannot be avoided, and yet most businesses, economists and politicians try to do so.

This, then, leads to the Henry Ford Question, which is: ***Ho***w can prosperity be sustained if labour is treated only as a cost to be cut, rather than as the source of the demand that keeps the economy alive?

1. Wages are more than a cost

Mainstream economics has, for decades, encouraged businesses and governments alike to see wages only through the lens of competitiveness. Lower labour costs supposedly mean cheaper products and bigger profit margins, or so the argument runs. Trade theory treats wages as an "input" to be reduced to gain an advantage in the global market.

But in the real economy, a wage is not simply a cost. It is simultaneously somebody's income, and the incomes of working people aggregate into the demand on which businesses depend. Cut wages across the board, and you are not just “saving costs”; you are draining the very purchasing power that drives sales.

Ford understood this, instinctively. If his cars were to become truly mass-produced, they had to be mass-consumed. His workers could not remain a pauper class building luxuries for the rich. They had to be able to buy the product themselves.

2. The productivity paradox

Modern capitalism loves to talk about productivity. Automation, AI, lean supply chains; all of these promise higher output per worker. In theory, that higher productivity should mean higher wages. In practice, over the last forty years, productivity and wages have been decoupled.

Output per worker has risen steadily. Wages for the majority have stagnated. The surplus has gone to profits, dividends, and executive pay. This is the productivity paradox: we can produce more, but the gains are not shared.

That decoupling has dangerous consequences. Goods now exist in abundance, but mass purchasing power based on wages has lagged.

The gap has been filled with household debt. In the US and UK, cheap credit became the sticking plaster that allowed workers to keep consuming despite stagnant wages. When the credit system cracked in 2008, the illusion collapsed.

Ford, more than a century earlier, had avoided that paradox: he aligned productivity gains with wage gains, so that output and demand rose together.

3. The fragility of demand

Economists talk about “aggregate demand” as if it were an abstract. In reality, demand is the ability of ordinary households to spend on food, housing, energy, transport, education, and leisure. When those households are squeezed, demand falters.

This fragility is visible everywhere:

* Insecure work. Zero-hours contracts and gig labour erode income stability.
* Stagnant pay. Median wages in the UK have moved little in real terms since 2008.
* Rising costs. Housing, childcare, and energy swallow disproportionate shares of income.

The effect is macroeconomic. Businesses invest when they see demand. When demand weakens, they hold back. Lower wages might look good for an individual balance sheet, but when every firm squeezes simultaneously, the market shrinks. It is the fallacy of composition applied to labour.

4. Demand collapse and crisis

History is replete with examples. The Great Depression was not just a stock market crash; it was a collapse of demand after years of wage suppression and speculative bubbles.

Post-2008 austerity in Europe repeated the mistake: governments cut public wages and spending, deepening recession when demand was already frail.

The lesson is simple: demand collapse is the natural end-point of treating labour purely as a cost.

Ford’s $5 day was a crude but effective form of demand insurance.

Today, we have dismantled such insurance. Labour’s bargaining power is weaker than at any time since the nineteenth century.

The result is a global economy held together with private debt and speculative bubbles — precarious, brittle, primed for crisis, and that crisis is now turning to anger, as we are seeing .

5. Distributional justice as macroeconomic stability

Wages are not just a fairness issue; they are a stability issue. Economies with stronger wage shares - where labour takes home a larger slice of national income - are less crisis-prone. That is because consumption is more stable when it rests on wages rather than on debt or asset speculation.

Every pound in a worker’s pocket has a higher propensity to be spent than a pound sitting in a Cayman bank account.

High wage shares keep demand circulating.

High profit shares leak into financial speculation, inflating asset bubbles rather than sustaining the real economy.

Ford grasped that crude principle. Today’s policymakers have forgotten it. Labour’s share of income has been falling for decades, and instability has risen in step.

6. What Ford tells us about today

What does the Ford Question demand of us now?

First, rebuild labour power. Strong unions and sectoral bargaining are not nostalgic relics; they are stabilisers of demand. They ensure productivity gains flow into wages.

Second, deliver progressive taxation. Left to itself, capital hoards the surplus.

Progressive taxation recycles it into public services and investment, sustaining mass purchasing power.

Third, deliver public investment in wages. Care, education, and green transition jobs are labour-intensive and wage-sensitive. Public spending in these areas doesn't just provide services; it anchors demand.

Fourth, reject the "labour cost" fixation. Competitiveness cannot be built on perpetual wage suppression. A society of underpaid workers is not competitive; it is brittle.

Inference

The Henry Ford Question remains unanswered. We are still trapped in the contradiction he spotted: if workers are only costs, who buys the output? Ford's $5 day was not a gift to his employees; it was an act of system maintenance.

The problem is that we have lost sight of that lesson. By prioritising shareholder returns and managerial bonuses, we have forgotten that prosperity requires redistribution.

The resulting paradox is stark: pay more, and the economy works; pay less, and it stalls.

Ford's insight was brutal but true: you cannot have mass production without mass consumption, and you cannot have mass consumption without fair wages. That is the challenge modern capitalism keeps trying to evade.

Previous posts in this series

* ***The economic questions***

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, ***here.***

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

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