THEORIES OF WAGES: AN INSIGHT

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ABSTRACT

The development of major differences in Ricardo's writings has certainly contributed to the well-known and ongoing discussion over how to interpret his wage theory and, by extension, classical wage theory. However, as far as the factors affecting normal wages are concerned, these inconsistencies may carry less weight than is usually believed. The goal of this study is to present a critical overview of the discussion over how traditional economists should interpret their theory of wages from a relatively unusual angle. I argue that there are significant similarities between the two interpretations—the so-called New perspective and Fix wage interpretations—that have been considered the primary rivals. These similarities make it easy for the discussion to overlook a significant component of how Ricardo and other classical economists developed their theory of wages: what "demand for labour" meant in their day. Furthermore, I argue that there is a different interpretation of wage theory by the classical economics that has not been adequately acknowledged or discussed in earlier analysis of the controversy. This alternative explanation (which I will refer to as such for the sake of clarity) differs from the others in that it emphasizes the fact that Ricardo and other classical economists did not consistently detect a diminishing link between employment and real wages. A detailed explanation of the alternative interpretation will be given, and the alternative interpretation will be utilized to assess a few of the New View's points of dispute.

Keywords: Extension, Classical wage theory, Interpretations, Demand for Labour.

INTRODUCTION

Wage payments vary from one industry to the next as well as across national borders. Wage payments can be made in various ways, such as by piece rate, by time, or by outcome. Salary levels are determined through public or state regulation, collective bargaining, or individual negotiation. Many theories of wages have addressed how salaries are decided.

According to Dunlop, the history of wage theory can be loosely split into three phases. The wage fund theory ruled the first, from 1870 to 1914; the theory of marginal productivity ruled the second, from 1914 to the present; and the process of collective bargaining and Keynesian research into the general wage level and employment characterised the third, from the First World War to the present.

WAGES

Wages are defined as a financial compensation for work or any kind of service. The Minimum Wages Act, 1948, is the legal definition of wages in India. "All remuneration which is made by monetary mode for a work done under an employment" is the definition of wages given in Section 2(4) of the Act. This section also lists some exclusions, such as the fact that salaries do not cover home supplies, travel expenses, PPF contributions, etc. Like all prices, wages are set by the dynamics of supply and demand in the labour market.

PRODUCTIVITY

Productivity can be defined as a way to measure how well items operate and how much the economy may generate with them. It is the unit's output volume divided by its input volume. It is said to be crucial for developing the nation's economy's competitiveness and growth. The productivity of the unit is decided by how well the input processes are used and by making sure a sufficient quantity of output is received.

THEORIES OF WAGES

1. SUBSISTENCE THEORY OF WAGES

Most people consider Adam Smith (1723–1790) to be the father of classical economics. He was an ardent admirer of natural social harmony and opposed any kind of government interference in the regular operations of business and industry. Additionally, he promoted the theory of labour productivity, often known as the theory of value, and held that labour was the source of the money that started providing every country with all of the necessities and comforts of life that it consumed each year.

Division of labor emerged as Adam Smith's main theory for improving productivity. Many wage theories, such as the subsistence, wage-fund, exploitation, bargain, and productivity theories, are included in his book Wealth of Nations.

According to the subsistence theory of wages, gradually, wages inevitably converge on the amount required to support a worker's family. Pay higher than subsistence level would motivate workers to start larger families, which would lead to a labor supply boom and a subsequent fall in wages to subsistence level.

Whatever the demand surroundings, supply would self-correct until salaries approached the subsistence level. However, he thought that the cost of maintaining labour sets a limit below which "the ordinary wages of even the lower species of labour" cannot be reduced. "A man's life must always revolve around his work, and his wages must be appropriate to sustain him," he declared.

2. WAGE FUND THEORY

The trade unions within the industries were the ones that opposed this notion the most. In addition to the views of David Ricardo and Adam Smith, J.S. Mill expanded this thesis. According to this hypotheses, wages are influenced by the ratio of capital to population. To determine wages, a portion of the capital is set aside, and the population serves as the determinant. According to this theory, population refers to the working class or labour force, and thinkers declared that both population and capital have an impact on competitiveness in the market.

This theory posits that the wage-fund capital stayed unmodified due to the belief that paying workers' wages would affect the capital of commodities or equipment used in production, ultimately resulting in a decrease in wages. Raising pay causes a reduction in population, while a growing population leads to an increase in wages because the wages-fund is so kept constant.

There is an inverse relationship between the two. The theory now has a mathematical component: "Wages= Wage fund/population."

This idea was considered as an attacks on the trade union movement and its dysfunction in the industries. Trade unions are unable to raise salaries without reducing employment opportunities since they have no influence over the number of people working in the sector. As a result, it ties them to the Industry's choice, which severely undermines the goal of a trade union. There are additional issues with this theory as well. According to this idea, the wages-fund, which is meant to stay constant, is not defined. Because of this, it is uncertain what exactly makes up the entire capital.

In addition, the quality of labour has been endangered because wages and population are related without taking into account the fact that wage hikes may have an impact on both the quality of labour and the workers individuals. Additionally, it was considered that wages could only rise in the presence of profits; but, when returns rise, profits and wages will likewise rise. This theory addressed supply and demand, but it was unable to establish the pay rate, endangering trade unions' authority and negotiation position.

3. MARGINAL PRODUTIVITY THEORY

Later ideas, such the marginal productivity theory, focused on the demand for labour, while the classical theories more heavily on the supply elements of labour. J.R. Hicks and Alfred Marshall are the principal proponents of this theory. This theory states that, in a system where there is a competitive labour market, labour, like any other factor of production, is governed by its marginal productivity.

The wages paid to all other labourers on the same grade are influenced by the wages obtained by the marginal labourer. According to this idea, the wage rate is decided by the firm.

4. SURPLUS – VALUE THEORY OF WAGES

This notion was proposed by Karl Marx. He went against the Subsistence Theory of Wages, claiming that the rate of unemployment is what drives wages to a subsistence level rather than the size of the population. According to him, workers are just tools utilised by capitalists to earn more capital. When a worker produces more, however, surplus value is created and added to the industry's capital, which then gets returned to the owner.

Marx's thesis criticises capitalists and highlights the undesirable features of industries that force workers to put in longer hours than they get compensated for. It describes a situation in which workers are not even compensated for overtime, and the owners of the industry take advantage of the improved efficiency to boost their capital.

5. RESIDUAL CLAIMANT THEORY

Most people probably know Francis A. Walker (1840–97) best as one of the leading critics of the wage fund doctrine. He suggested a residual claimant theory of wages instead of which describes wages as the portion of residual surplus left over after other factor charges are fulfilled. According to him, certain laws govern rent, interest, and profits; however, wages are not particularly governed by any law. Employees receive the residual.

6. BARGAINING THEORY

John Davidson first proposed the bargaining theory of wages in 1989. He says that basic pay, fringe benefits, job differentials, and individual inequalities are usually determined by the relative strength of the organisation and the trade union. pay is governed by the relative bargaining power between companies and their employees or trade unions.

Proponents of the bargaining the theory believe that rates for specific kinds of labour should have upper and lower bounds. The wage that is paid within this range is influenced by the relative bargaining power that employees and labour have. The inability of the bargaining theory of wages to precisely define the limits or calculate the range between them is its worst flaw.

The rate below which employees decline to work is the lower limit, and the upper limit is the rate over which the employer will not hire a particular kind of workers. An examination of supply and demand is crucial to determining the limits.

Given that wages are currently determined by collective groups of employers structured into employers' associations and workers organised into trade unions, bargaining has drawn a lot of attention. A major part of general wage theories are bargaining theories.

The important function that organised labour plays in setting wages has been openly acknowledged and accorded equal weight with that of management in the development of bargaining theories. Various models of the bargaining process are used to find and express the factors that drive trade union leaders to demand and accept specific wage levels or rates.

The exact wage rate that is eventually included in a collective bargaining agreement will vary depending on how strong an employer's and employees' negotiation position.

In the labour market, collective bargaining can be considered to be a process that equalises worker supply and demand. Three categories could be used to usefully lay out the various facets of bargaining: (a) labour contract; (b) industrial government structure as well as and (c) management approach.

It is a system where management and the union interact to control terms and conditions of employment and make decisions. Unlike in the past when workers bargained individually, salaries are now set by trade unions collectively in modern democratic societies.

7. BEHAVIORAL THEORY

As mentioned before, compensation and work benefits comprise both material and intangible advantages that people receive in exchange for their efforts. An individual's responsibility to maintain fairness should be taken into consideration by the reimbursement process or payment system. It is a system of incentive that acknowledges each person's work and input into the provision of services. The employee compensation process is referred to by multiple theories (Altman, 2000).

The theories offer a variety of rules that govern the reimbursement procedure, primarily to guarantee equity and an output-based compensation structure. This is essential since the theories aim to end discriminatory and unfair compensation systems. In particular, need theory asserts that when needs are met, workers function well (Rolfe, 2007). It claims that when an individual's needs and expectations are not satisfied, their performance is affected.

The theory is based on Maslow's hierarchy of requirements, which explains why unsatisfied physiological demands do not lead to personal satisfaction or enhanced performance. This discusses the applicability of the notion, which requires administrators to determine the needs of employees.

This is done in order to make it easier to create permanent compensation plans that can meet their needs. The evaluation procedure is essential since it helps determine the chosen criteria for each employee's compensation (Rolfe, 2007). This is crucial since some workers are more satisfied with monetary compensation, while others find fulfilment in receiving praise. Need theory is a reputable human resource management tactics that provides explicit principles for meeting workers' psychological, financial, social, and psychological needs. This is to guarantee that workers in organisations are operating at their highest level of wellbeing in order to enhance performance.

CONCLUSION

There are other theories as well that offer alternatives wage systems and interpretations. The theory of marginal productivity has been shown to be the most reliable in explaining wages. It has its share of detractors, but what sets it apart is how closely it links to employee productivity. In many locations, the industries have been operating essentially according to the same mechanism; yet, the previously mentioned challenges make it challenging to accomplish the goal. However, compared to other theories, this one is more easy to understand offers a superior mechanism in a market. Other theories exist as well, such as supply and demand theory, which is solely focused on employment and pay as well as supply and demand in the market.

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