THEORY OF WAGES

PRAGYA SINGH

THERE ARE 7 THEORY OF WAGES

- Wages Fund theory
- Subsistence theory
- The surplus value theory of wages
- Residual claimant theory
- Marginal productivity theory
- The bargaining theory of wages
- Behavioral theory of wages

Wages Fund Theory:

- This theory was developed by Adam Smith (1723-1790). His theory was based on the basic assumption that workers are paid wages out of a pre-determined fund of wealth.
- This fund, he called, wages fund created as a result of savings. According to Adam Smith, the demand for labor and rate of wages depend on the size of the wages fund.
- According to this theory, therefore, trade unions cannot raise wages for the labor class as a whole.
- The efforts of trade unions to raise wages are futile. If they succeeded in raising wages in one trade, it can only be at the expense of another, since the wage fund is fixed and the trade unions have no control over population

Subsistence Theory

- This theory was propounded by David Ricardo (1772-1823). According to this theory, "The laborers are paid to enable them to subsist and perpetuate the race without increase or diminution". This payment is also called as 'subsistence wages'.
- If workers are paid less than subsis-tence wages, the number of workers will decrease as a result of starvation death; malnutrition, disease etc. and many would not marry.
- Then, wage rates would again go up to subsistence level. Since wage rate tends to be at, subsistence level at all cases, that is why this theory is also known as 'Iron Law of Wages'.
- It assumes that when they were paid more than the subsistence level, they might indulge in enjoyment and consequently their numbers would increase, and this would result in a low rate of wages.

The Surplus Value Theory of Wages

- This theory was developed by Karl Marx (1849-1883). This theory is based on the basic assump-tion that like other article, labor is also an article which could be purchased on payment of its price i.e. wages.
- This payment, according to Karl Marx, is at subsistence level which is less than in propor-tion to time labor takes to produce items. The surplus, according to him, goes to the owner. Karl Marx is well known for his avocation in the favor of labor.
- According to Marx, labor is an article or commodity which can be purchased on payment of a price. The price of any product is determined by the time and effort needed to produce it.
- The laborer is not paid in proportion to the time spent and the surplus goes to the management to meet other expenses.

Residual Claimant Theory

- This theory owes its development to Francis A. Walker (1840-1897). According to Walker, there are four factors of production or business activity, viz., land, labor, capital, and entrepreneurship.
- He views that once all other three factors are rewarded what remains left is paid as wages to workers. Thus, according to this theory, worker is the residual claimant.
- This theory admits the possibility of increase in wages through greater efficiency of employees. In this sense, it is an optimistic theory; the subsistence theory and wages fund theory were pessimistic theories.
- According to Walker, wages are the residue left over, after the other factors of production have been paid.

Marginal Productivity Theory

- This theory was propounded by Phillips Henry Wick-steed (England) and John Bates Clark of U.S.A. According to this theory, wages is determined based on the production contributed by the last worker, i.e. marginal worker. His/her production is called 'marginal production'.
- This theory state that, under the condition of perfect competition, every worker of same skill and efficiency in a given category will receive a wage equal to the value of the marginal product of that type of labor.
- The value of marginal net product of labor may be defined as being the value of the amount by which output would be increased by employing one more worker with the appropriate addition of other factors of production.

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The Bargaining Theory of Wages

- John Davidson was the propounder of this theory. According to this theory, the fixation of wages depends on the bargaining power of workers/trade unions and of employers.
- If workers are stronger in bargaining process, then wages tends to be high.
- In case, employer plays a stronger role, then wages tends to be low.
- According to this theory, there is an upper limit and a lower limit of wage rates and the actual rates between these limits are determined by the bargaining power of the employers and the workers.
- John Davidson, the earliest exponent of the bargaining theory of wages, argued that the wages and hours of work were ultimately determined by the relative bargaining strength of the employers and the workers

Behavioral Theories of Wages

- Based on research studies and action programmes conducted, some behavioural scientists have also developed theories of wages.
- Their theories are based on elements like employee's acceptance to a wage level, the prevalent internal wage structure, employee's consideration on money or' wages and salaries as motivators.
- Many behavioral scientists — notably industrial psychologists and sociologists — like Marsh and Simon, Robert Dubin, Eliot Jacques have presented their views of wages and salaries, on the basis of research studies and action programmes conducted by them.