



## A NOTE ON PROBLEMS OF WAGES

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# A NOTE ON PROBLEMS OF WAGES

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## I. Development of the Wage Theories

As to the theory of wages, it has been stated that “the theory of the determination of wages in a free market is simply a special case of the general theory of value”.<sup>1)</sup> Surely, since the days of the classical school various wage theories have been established. This fact, however, means generally “not the advance from less ‘truth’ to more ‘truth’, but rather from one ‘truth’ to another, a new one”, and “the relative character of all wage theory, which, more than many other branches of economic theory is highly sensitive to changes in the social and economic environment”.<sup>2)</sup> We can realize the implication of the above statement by the following fact that the wage fund theory or the marginal productivity theory stressed rather on the demand for labour than on the supply, while the subsistence theory of wages was mainly based on a special hypothesis of the long run supply of labour, not analysing the demand for it. It is said, however, that the main position of the theory of wage determination is generally occupied by the marginal productivity theory. Prof. Hicks’ *The Theory of Wages* is well known as one of the standard works in this field. The reason of general acceptance of the marginal productivity theory is as follows: this theory holds true not only in case of perfect competition but also in case of monopoly, and the equality of wage-rate to the marginal productivity of labour is considered to be one of necessary conditions of general equilibrium. But, as a result of stressing the demand side of labour, this theory can’t avoid the criticism that it neglects the supply side.<sup>3)</sup>

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1) Hicks, J. R. *The Theory of Wages*, 1932, p. 1.

2) Rothschild, K. W. *The Theory of Wages*, 1954, p. 3.

3) There are many criticisms of the wage theory based on the marginal productivity. In our country, one of the representative critiques is that of “Power theory” by Prof. Takata. (Cf. *An Introduction to Sociological Economics*, Tokyo, 1956.) When the competition in market is not perfect or there are many unemployed, marginal productivity theory loses its full validity. In other words, this theory can explain only the relation between the rate of wages and the amount of employment, or “the marginal productivity is said to measure but not to determine particular wage rate” (Dunlop, J. T. *Wage Determination under Trade Union*, 1950, Preface, p. v.). There is another critique that the marginal productivity is measured by the rate of wage, and this critique is opposite direction to the statement of the above theory (Cf. Prof. Robertson, D. H.).

Let us now consider the development of wage theory after the appearance of Keynes' "General Theory". As it is well-known, Keynes admitted the first postulate of the classical school: the wage is equal to the marginal product of labour. And he stressed in the employment theory that the realization of full employment owing to the flexibility of wages, as is asserted by the classical school, is not realistic. Instead of it he emphasized the solution of the problem by the increase of effective demand. He pointed out that the wages are highly rigid downwards as a result of the strength of trade union. And with the development of employment theory, it became to be considered that cost-price structure is assumed to be unchanged all the time, thus the theory of wage determination came to be hidden behind that of employment. The problem considering the relation between the cost-price structure and the flow of money did not attract any serious attention, but only the problem about the flow of money has been argued with deep interest.<sup>4)</sup> As to the social conditions it is easy to be admitted that the development of both monopoly and trade union has made costs and wages rigid since the beginning of this century. In consequence, when the trade union not merely resist to the fall of wages but also claims to raise wages by strength on conflicting with capitalists, we can not neglect the existence and rôle of the trade union as the collective supplier of labour.

## II. On the Economics of Trade Union

Under "the economics of collective bargaining" has developed the studies on the economic aspect of the strength of organized labours that made the economic policy change. As Prof. Dunlop stresses, of course, it must be excluded the claim that "labour unions are political institutions and wage rates reflect internal political necessities rather than sound economic principles".<sup>5)</sup>

When we consider the economics of trade union, we find that there are many economic objectives of trade union, examples of which Prof. Dunlop shows,<sup>6)</sup> but the most general objective of them is that which

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4) It is possible to say as follows, as Prof. Dunlop pointed out. Economists treat of "the money wage rate structure and level as somehow determined outside the economic system and consider within the framework of economic analysis only the consequences of various given wage levels and wage structures". (Dunlop, J. T. *op. cit.* Preface, p. v.).

5) *Ibidem*, Preface, p. iii.

6) Dunlop, J. T. *op. cit.*, pp. 36-42. Prof. Dunlop states many other objectives of non income in trade union. *op. cit.*, pp. 46-50.

consist in achieving the largest possible wage bill for the membership of the trade union in a particular segment of the economy. And, by Prof. B. H. Haley, the behaviour of trade union led by this objective is shown in following four cases<sup>7)</sup>: (1) when trade union in question is that of open shop, (2) when the trade union is that of closed shop, (3) when the trade union is subject to two kinds of discriminating by employer, that is, price discrimination and quantity one and (4) when the relation between trade union and employer is the bilateral monopoly. Each case mentioned above is fully investigated and presents the process of wage determination, though there are critiques that purely economic theories of wage determination can not fully solve their problem because of the complexity of labour market.<sup>8)</sup> The models, of which the above four cases treat, show that "the bargaining process is not restricted to these long-term changes in capital and labour supply and consumption, but that the short-term actions can play an important part".<sup>9)</sup> And we can see that there is a certain range within which bargaining strength of trade union can operate. But these models of wage determination which introduced the movement of trade union in labour market are, after all, only the models based on the partial equilibrium, and there still remain problems to be solved after trade union achieved their main objective mentioned above. That is, first, how the capitalist class reacts to these actions of trade union; second, in the long-term, with the growing strength of trade union, whether the relative share of labour class is growing really or not.

The former problem implies that the scope of actions of trade union depends on the reaction of the capitalist class upon them. That is to say, the relative share that goes to labour is influenced by the actions of capitalist class—for example, to their behaviour in other markets, the adoption of new technique, etc. As a result, we see that the theory of wages includes the theory of wage determination and that of wage fluctuation. Trade union must take interest in the fluctuation of prices of products in relation to wage fluctuation—especially wage

7) Haley, B. F. "Value and Distribution" in *A Survey of Contemporary Economics*, ed. by Ellis, H. S. 1949, pp. 32-36. In these cases, (1), (2), (3) are stated by Bronfenbrenner, M. in "The Economics of Collective Bargaining" *Quarterly Journal of Economics*, 1939, pp. 538-561, and (4) is stated by Fellner, W. in "Prices and Wages under Bilateral Monopoly" *Quarterly Journal of Economics*, 1947, pp. 509-516., & *Monetary Policies and Full Employment*. 1946, pp. 103-111.

8) Lester, R. A. "Reflections on the 'Labour Monopoly' Issue", *Journal of Political Economy*, 1947, p. 513; Ross, A. M. "The Dynamics of Wage Determination under Collective Bargaining", *American Economic Review*, 1947, pp. 793-798.

9) Rothschild, K. W. *op. cit.*, p. 114.

falling. Thus, "the bargaining strength of labour is not solely a matter of the labour market".<sup>10)</sup> As to the latter problem, though Prof. Kalecki's studies show the share of labour class is fairly unchanged in the long run,<sup>11)</sup> the problems about the relation between the growing strength of bargaining of labour class and the relative share of them still remain to be solved. Under the present conditions of theories, we can't clear to what extent has the collective bargaining of trade union effects on the relative share of labour class. As these studies advance the economics of trade union will establish a definite position in the traditional system of economic theory, emerging out of the partial equilibrium theory.

### III. On a Labour Standard

With respect to the fact that the growing power of trade union has made the wages rigid downwards, Prof. Hicks says<sup>12)</sup> in his article which considers especially the postwar wage conditions as follows: "the world we now live in is one in which the monetary system has become relative elastic, so that it can accommodate itself to changes in wages having to adjust themselves to an equilibrium level, monetary policy adjusts the equilibrium level of money wages, so as to make it conform to the actual level. It is hardly an exaggeration to say that instead of being on a Gold Standard we are on a Labour Standard". And he states that such claims for wage increases are based on three causes, that is (1) cost of living (2) the wage differentials (3) the profits earned by the employers. Thus the postwar economic conditions include always the inflationary state and in this sense, wage policy in reality must be led in parallel with anti-inflationary policy.

For this opinion, Prof. Richardson, while on one hand he admits that the growth of the power of trade union reduces the effects of economic factors in the wage negotiation of labour market, argues on the other hand as follows. "By collective bargaining, and by the action of wages councils and similar statutory bodies, minimum or basic rates of wages have been standardised in many industries, but the general level has been raised over the years by industrial progress and not by non-economic pressures."<sup>13)</sup> "In the short period, which may indeed

10) Rothschild, K. W. *op. cit.*, p. 114.

11) Kalecki, M. *Essays in the Theory of Economic Fluctuations*, 1939, pp. 13-41.

12) Hicks, J. R. "Economic Foundation of Wage Policy", *The Economic Journal*, 1955, p. 391.

13) Richardson, J. H. "Wage Policy and a Labour Standard", *The Economic Journal*, 1956, p. 434.

extend over a decade or more, the part played by non economic factors, particularly social factors, is often considerable, but in the long-run the tendency is for the economic factors of demand and supply and for technological changes to become dominant in determining wage standards."<sup>14)</sup>

Thus from our point of view stated above, the problem about the difference between Prof. Hicks' opinion and Prof. Richardson's leads, after all, to that of the effect of collective bargaining of trade union on the distribution of national income. (though Prof. Richardson's argument refers to the problem of rising of wage levels). And we can't overcome the inflationary condition owing to the wage rise pointed out by Prof. Hicks, unless we pay due attention to the increase of the productivity. And when we take into consideration the rising tendency of real standard of living, we have to reconsider the long-run relation between the level of wages and the productivity, that is, the secular movement of the marginal productivity of labour.

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14) Richardson, J. H. *op. cit.*, p. 433.