
The laws of wages

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Summary

- Wages are not the price of labour
 - Classical theory of reproduction
 - Time scales and speed of response
 - Stochastic version of Marxian theory
 - Gender wage differences
 - Effect of population change
-

Wages are not payment for work

Conventional view

Wages are payment for work done

There is a fair exchange

Unequal wages due to unequal merit or value

Work of equal value should be paid the same

Wages are not payment for work

Marx's view

Wages are price of *ability* to work

This is always less than the value of the work done -
hence it is exploitative

Unequal wages due to role in reproducing labour power

Work of equal value can only be paid the same under
communism

Price of labour power

Labour power = ability to do work

Compare to the horsepower of a car engine,

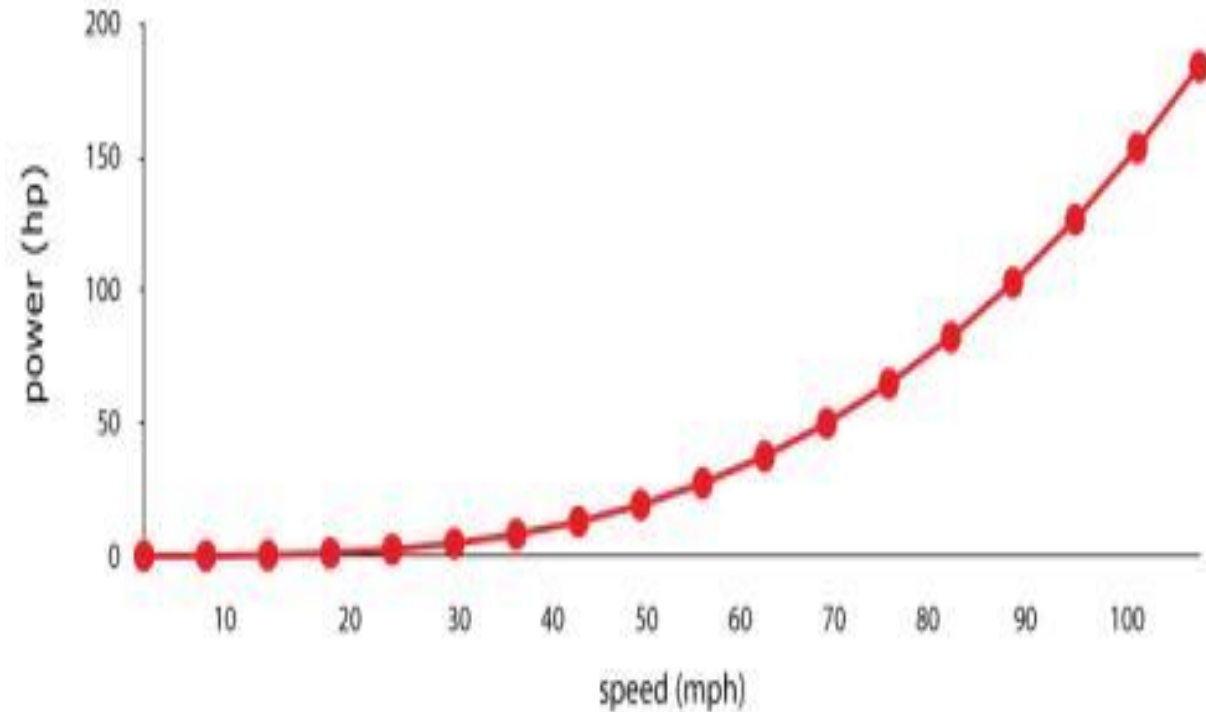
This is not always fully used, go faster and the engine does more real work



Output vs potential

Only when the car is going at full speed is the potential power of the engine fully used.

Horsepower to overcome aerodynamic drag*



*assumes powertrain efficiency of 20%

Intensity of work

If work is lengthened or more intense, the employer gets more real work from the power that they hire.

This is like speeding up a car.



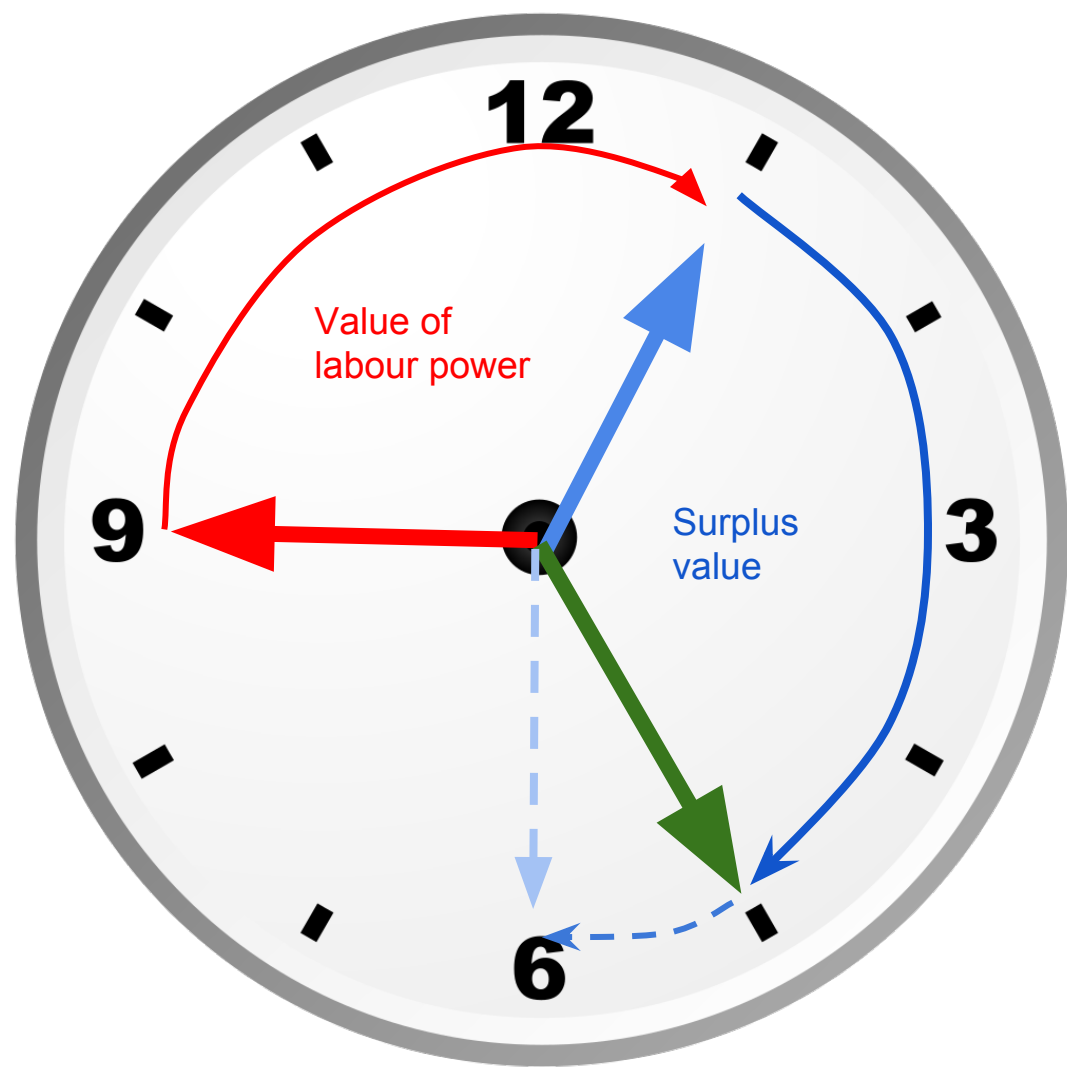
Exploitation

Cost of reproducing labour power is much less than the value created by working a long day.

From 9 to 1 the worker replaces their wages

From 1 to 5 the worker creates surplus

If the working day lasts till 6 - more surplus



Nobody is paid the value of their labour

- The call for people to be paid the value of their labour is illusory
 - People are never paid for their labour
 - Only what it costs to *reproduce* the ability to work.
 - Costs of feeding
 - Costs of training
 - Costs of next generation of workers
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Classical theory - iron law of wages

From Malthus and Ricardo

- If wages rise, more people are reproduced,
 - Bigger families
 - Lower infant mortality
- More competition for work
 - Lower wages
 - Higher infant mortality

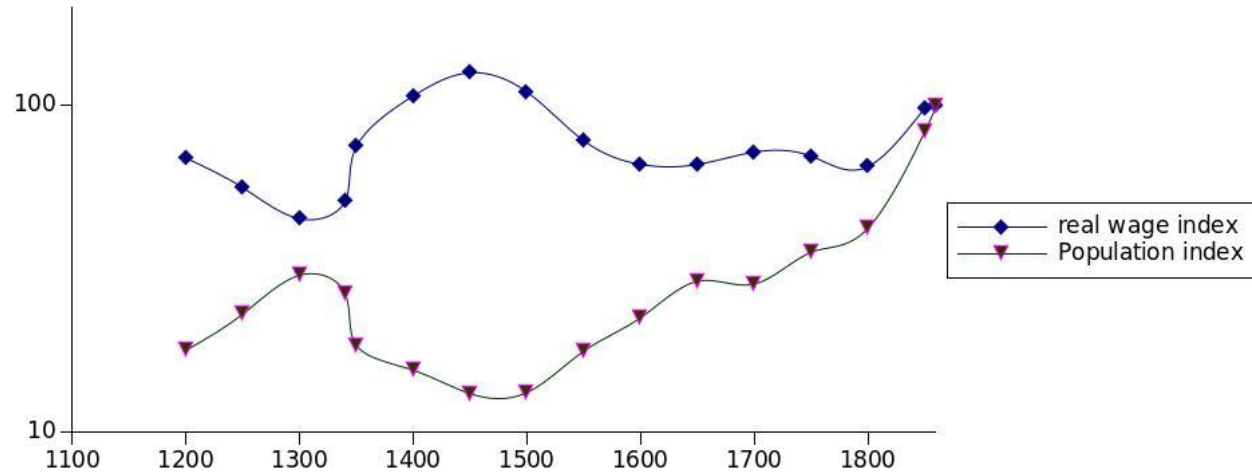
Hence wages stay near a subsistence minimum

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Was this true?

YES

Over a period of centuries this happened



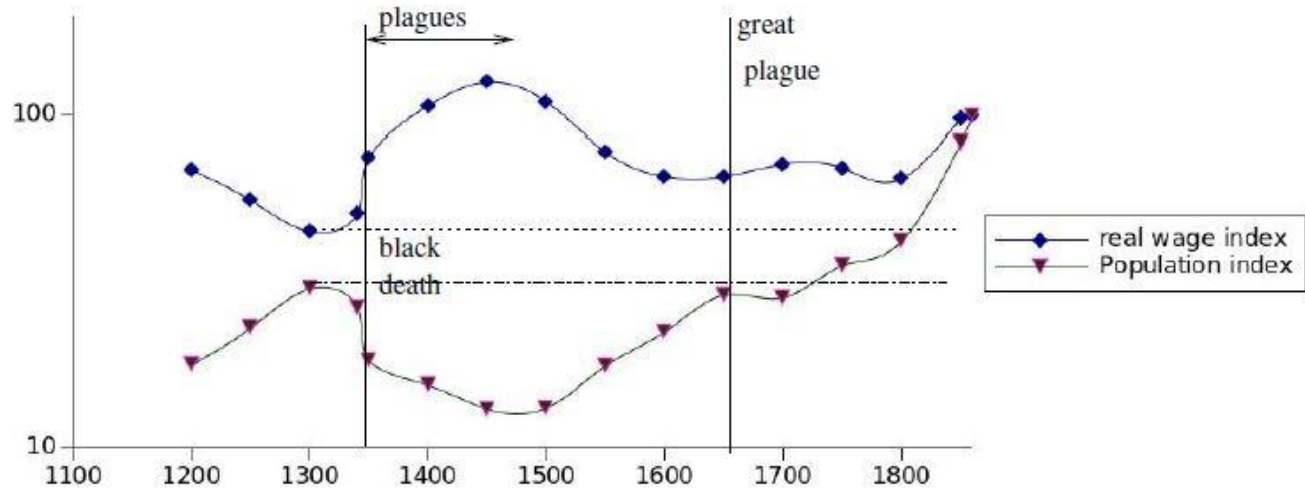
English agricultural wages versus population

Was this true?

Plagues reduced population
then wages rose.

When population grew again
then wages fell.

Only changed with
mechanisation.

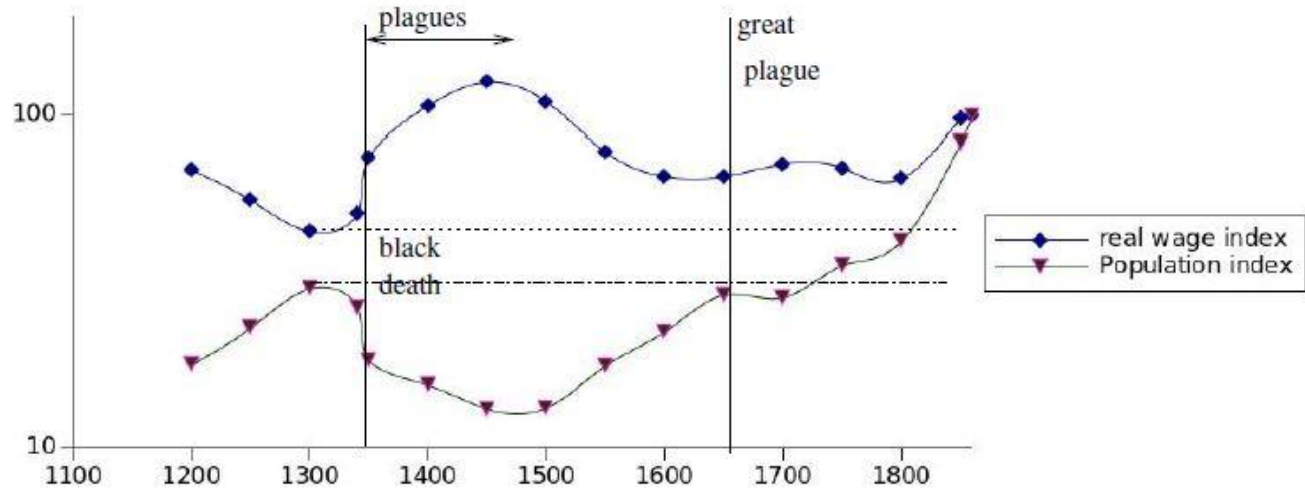


English agricultural wages versus population

Was this true?

Wages in 1860
still lower than in
1460

But the
relationship was
breaking down
after 1800.



English agricultural wages versus population

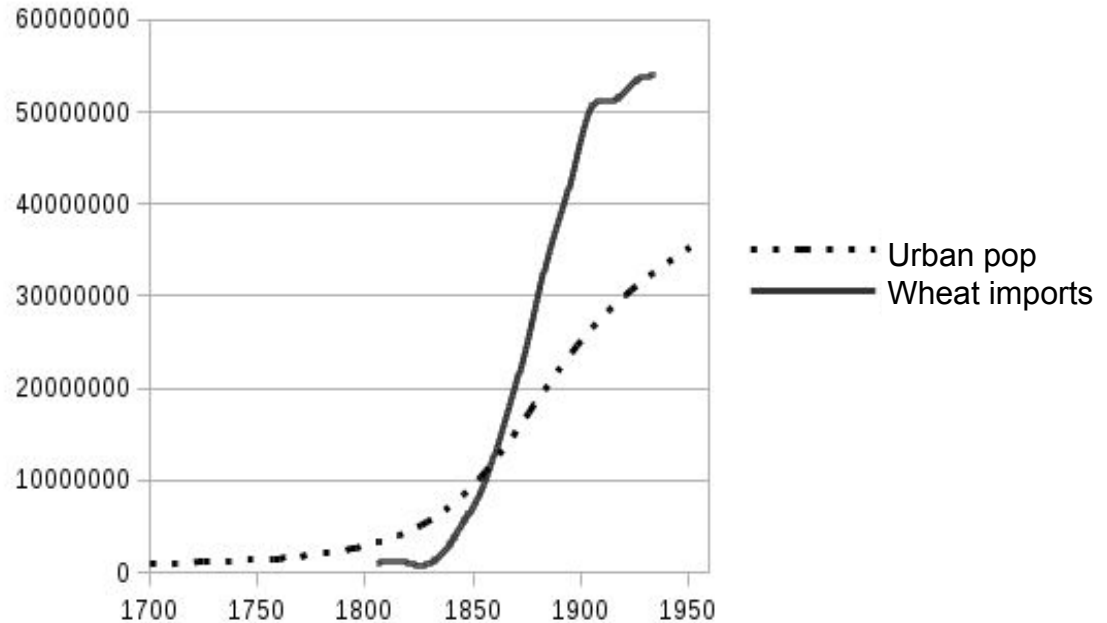
Why did the law of wages weaken?

Mechanisation allowed surplus to increase even when real wages rose (relative surplus value)

Conquest of new land in America, Canada etc increased food supply for a larger urban population

In 20th century artificial fertilizers further increased it

Whole of Great Britain
Urban population versus wheat imports



Reproduction and wages

According to Marx wages are the price of reproducing an ability to work.

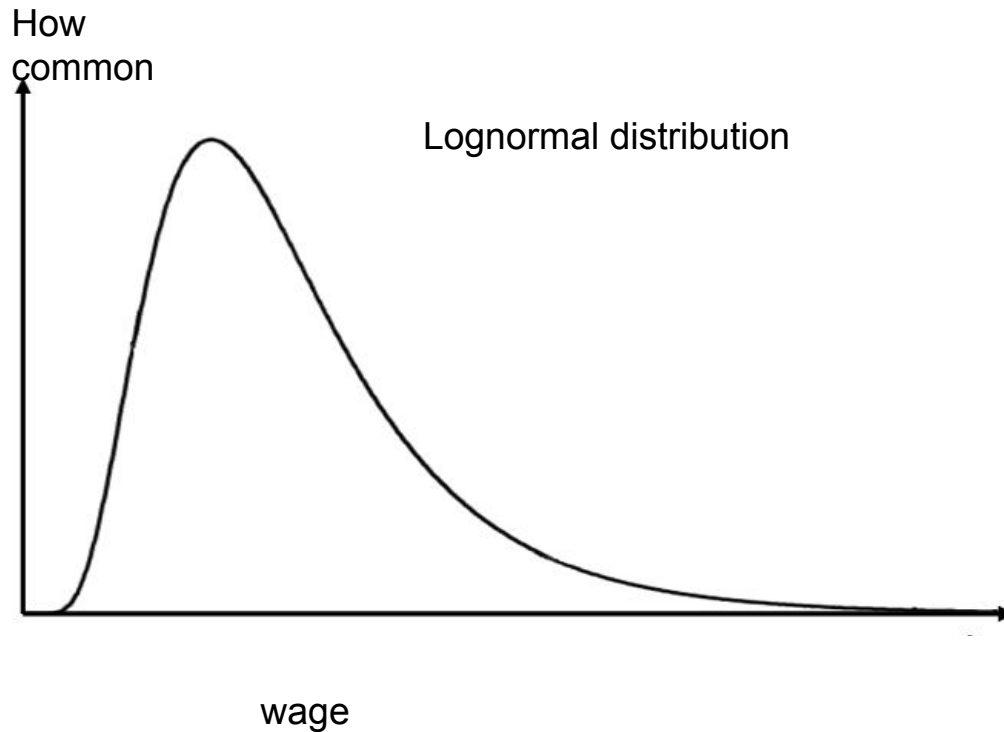
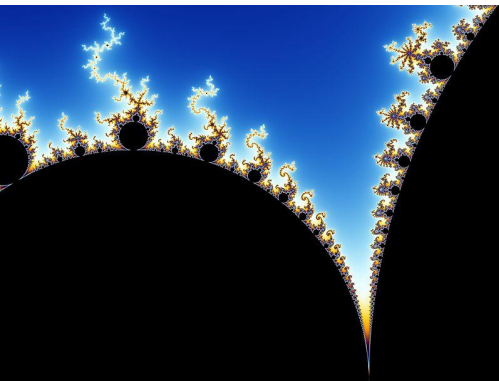
Problem

- Feedback is slow
 - Why should employers worry about a next generation that is not here for 25 years
 - Malthusian mechanism operates over centuries
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There is not one 'wage'

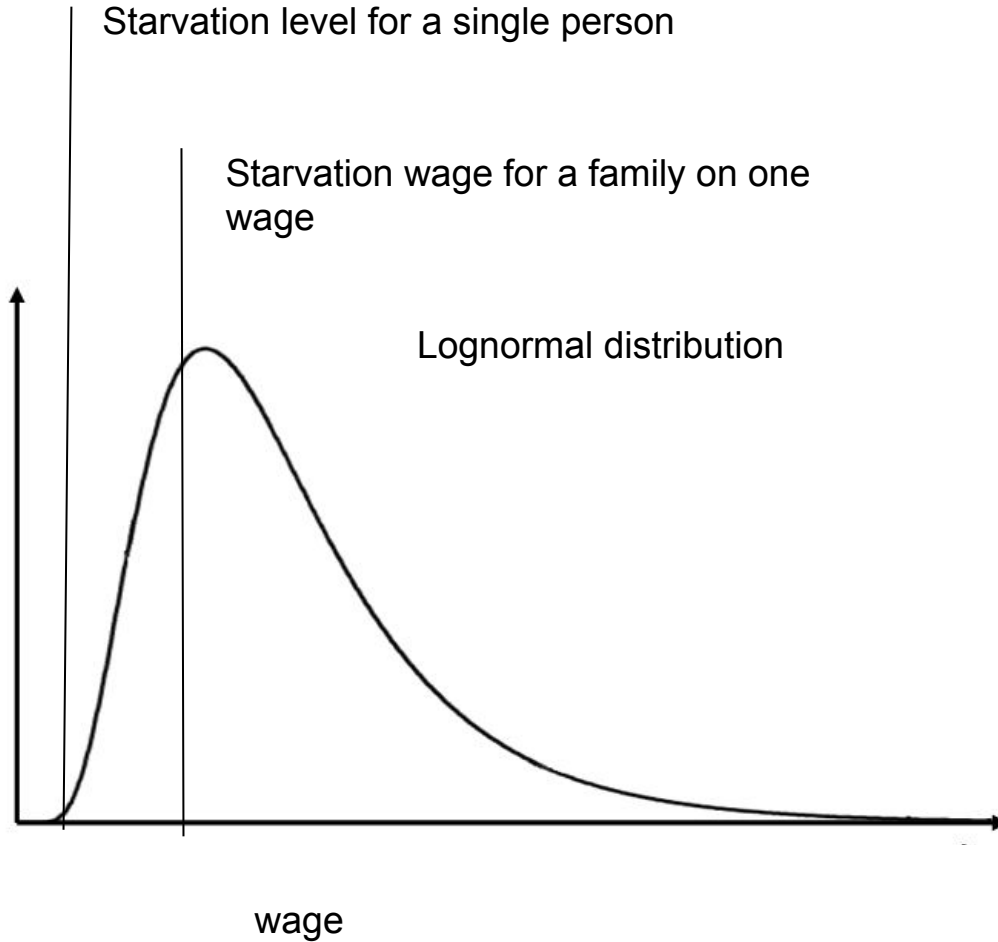
There are a spread of wage rates.

The distribution was shown to be log normal by *that* Mandelbrot.



There is not one 'wage'

Bare subsistence minimum for single persons and for families set lower limit to the distribution



Rates of hunger in the USA

Year	Food insecurity % of households	Very low food security % of households
1995	11.94	4.14
2000	10.47	3.13
2005	11.00	3.87
2010	14.51	5.35
2011	14.94	5.72
2012	14.51	5.72
2013	14.28	5.58
2014	14.05	5.59

Hunger in a rich nation

Overall 48 million people in the USA were food insecure in 2014.

People on wages that put them in the low food security category have a wage that is not enough to survive on without federal or charitable food aid.

Dynamic regulation

The classical competition in the labour market was due to population increase.

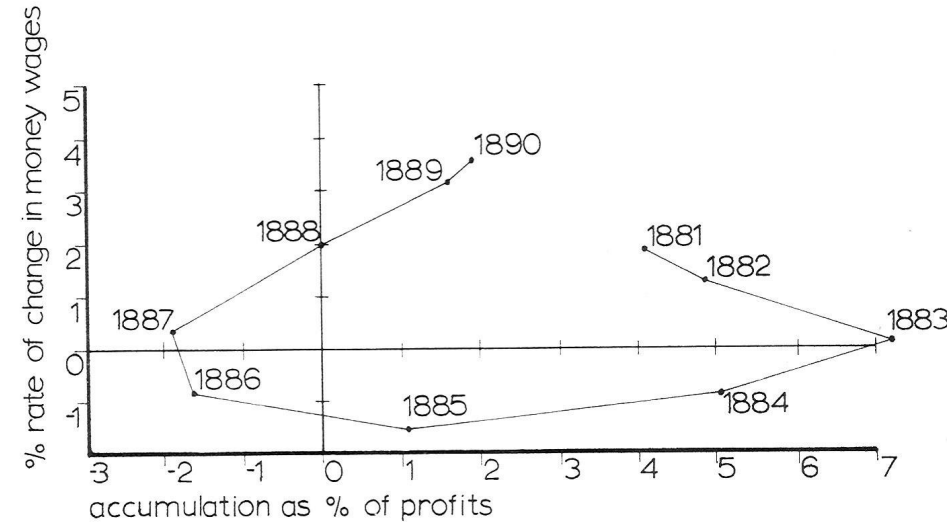
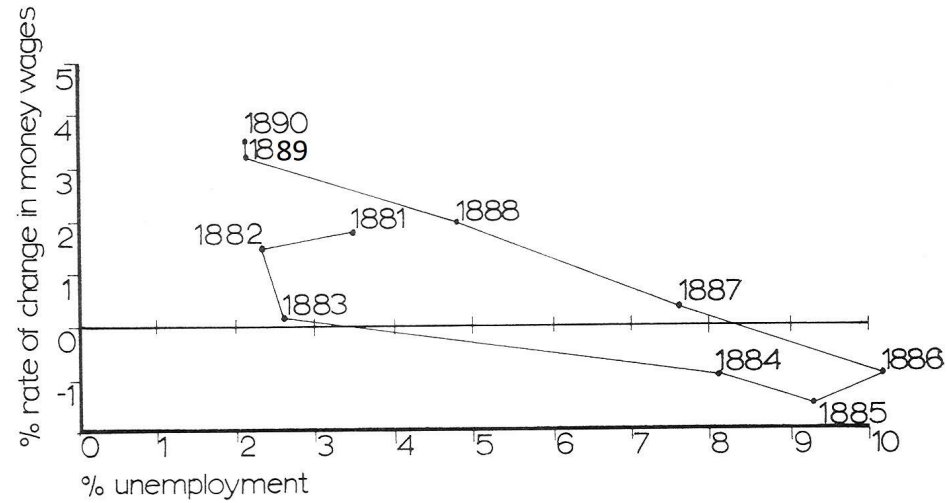
In a capitalist economy there is additional competition caused by a fluctuating reserve army of labour.

I will show this with a classic 19th century accumulation cycle of the type Marx knew

Accumulation cycles

Top graph is change in wages against unemployment for the 1881 to 1890 cycle

Bottom graph is change in wages against net accumulation level



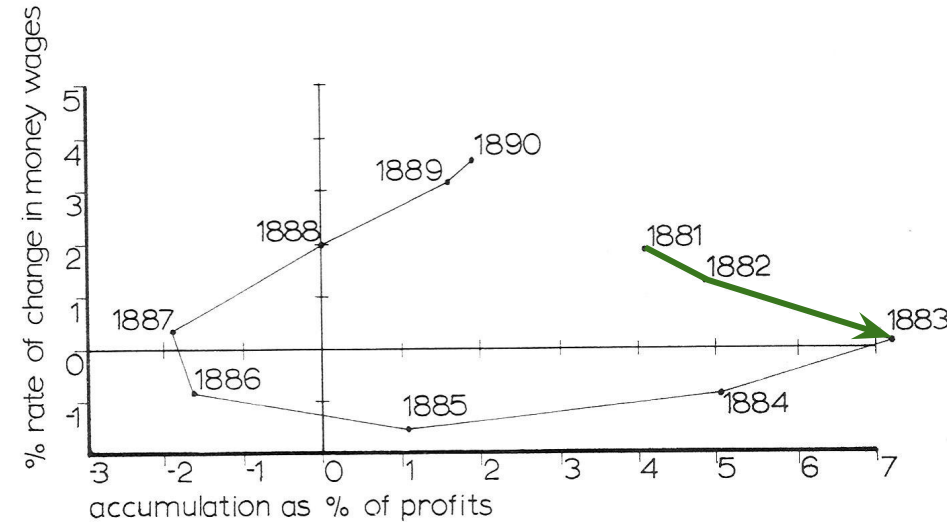
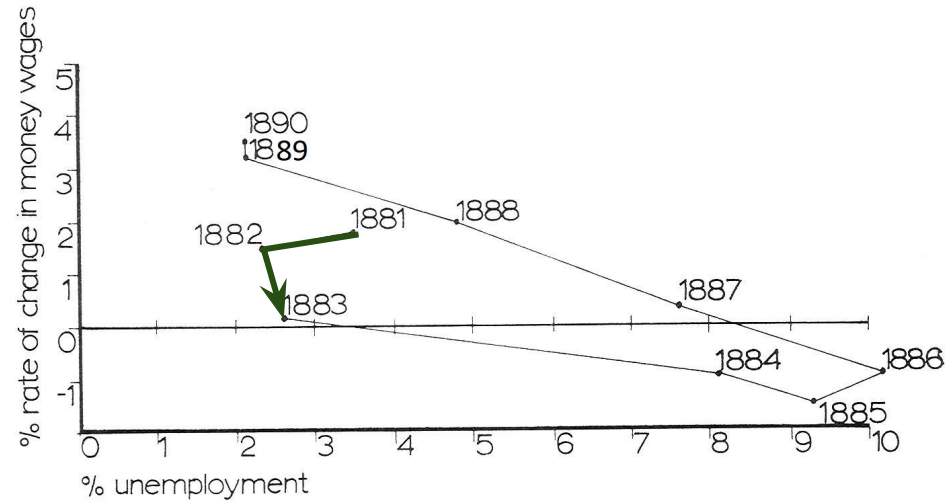
Accumulation cycles

Peak of last cycle 1881 to 1883

Accumulation Positive

Unemployment low

Wages rising



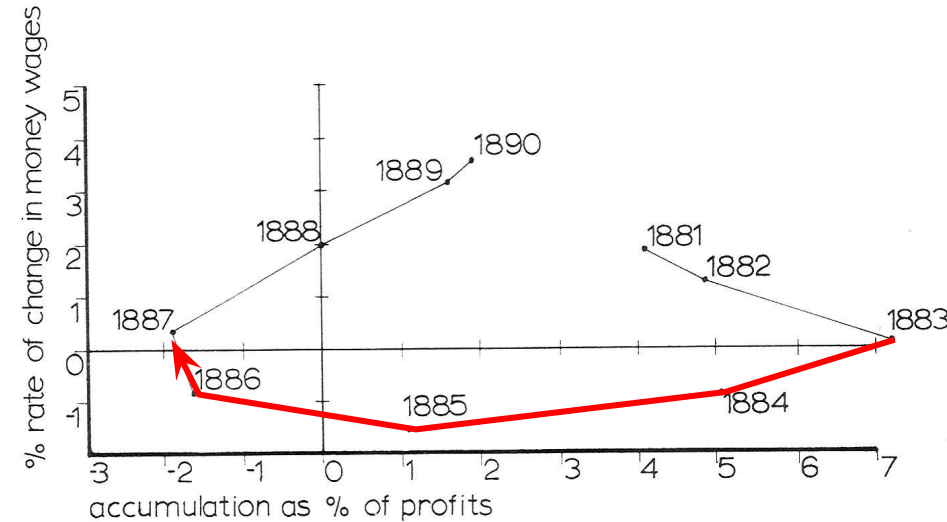
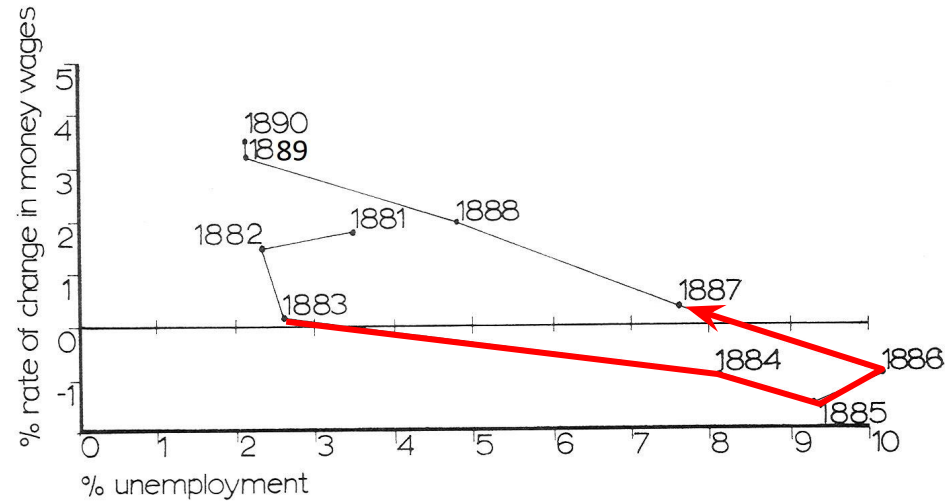
Accumulation cycles

Downturn 1883 to 1887

Accumulation **falling or negative**

Unemployment **High**

Wages **falling**



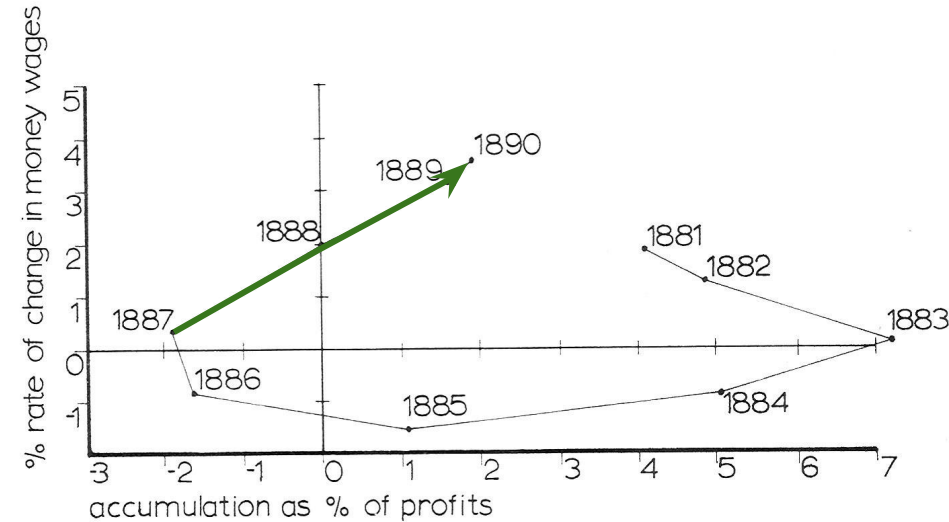
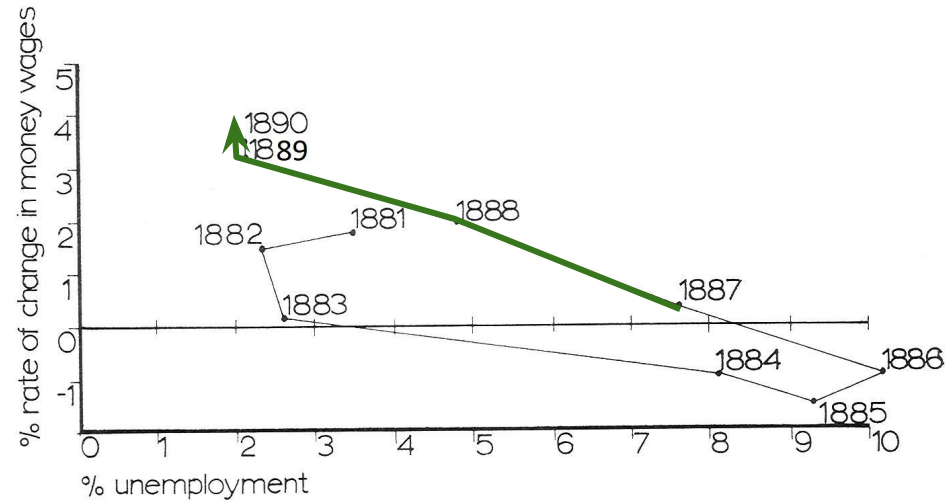
Accumulation cycles

Upswing 1887 to 1890

Accumulation **Positive or rising**

Unemployment **falling**

Wages **rising**



Growth of working population

The growth of the working population still acts as a major determinant of the rate of exploitation and rate of profit.


The other main determinant is the share of profit being accumulated

Cyclical movements superimpose on demographic trends

The exploitation rate tends to be high when the birthrate is high and the workforce expands rapidly and it tends to be low if the rate of accumulation is high. These reflect the relative competitive positions in the market of labour and capital. These correlations were performed across vectors of 1220 individual year samples drawn from 30 countries. b is the birthrate, dN is the annual percentage change of the employed workforce, α is the share of investment in surplus value. Data source was the Extended Penn World Tables.

Variables	Correlation
$(b, \frac{s}{v})$	35%
$(dN, \frac{s}{v})$	13%
$(\alpha, \frac{s}{v})$	-56%

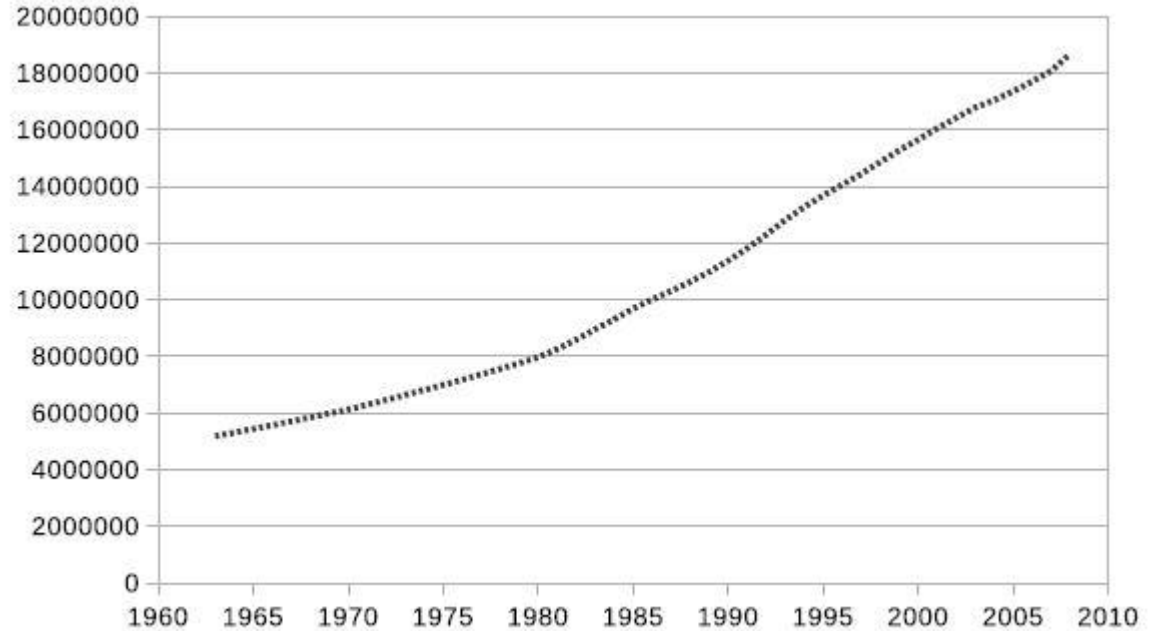
Also affected by the dynamic cycle so weaker effect



Example South Africa

South Africa has a workforce that is growing at an accelerating rate

Growth of proletariat in South Africa

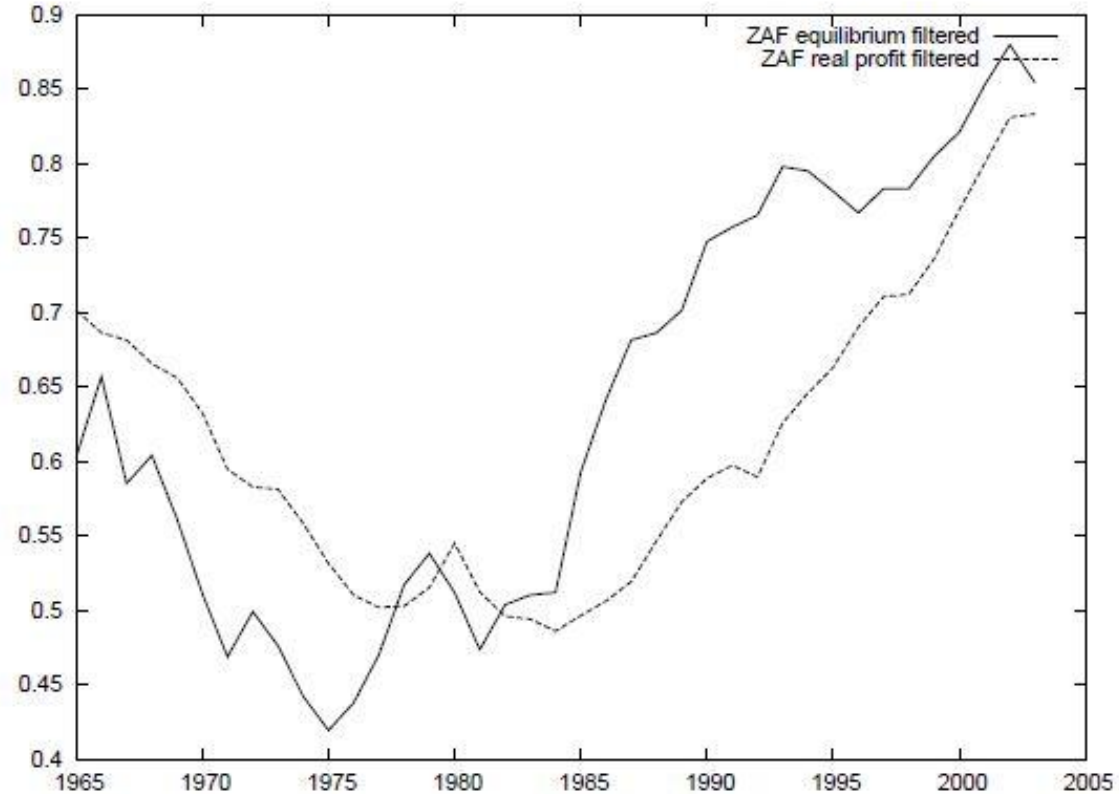


Profit rate in South Africa

Example South Africa

South Africa has a workforce that is growing at an accelerating rate

The consequence is a rapidly rising rate of profit.



Key points

Growth of the labour force historically the key factor determining exploitation rates.

It is still absolutely vital

It can be partially offset by very rapid capital accumulation which absorbs the new workers.

Repudiating liberalism

Liberals say that immigration does not increase exploitation

This is quite contrary to

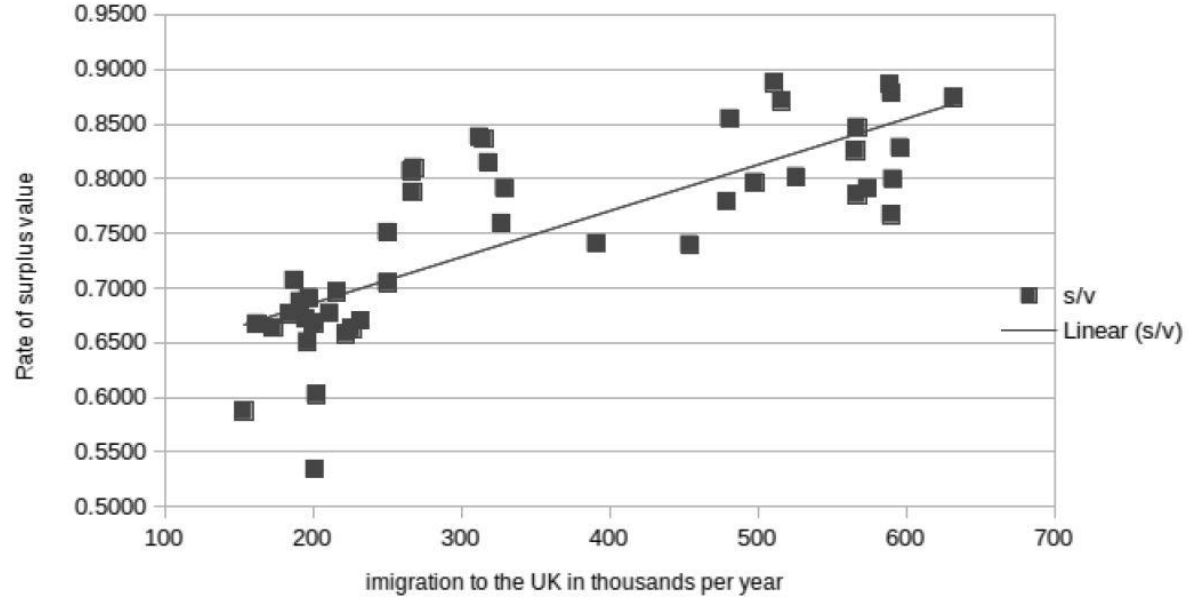
1. Marxist theory of the reserve army of labour
 2. The actual historical data
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Immigration and exploitation rates in Britain

Immigration

Immigration increases the reserve army of labour

High rate of immigration → high rate of exploitation



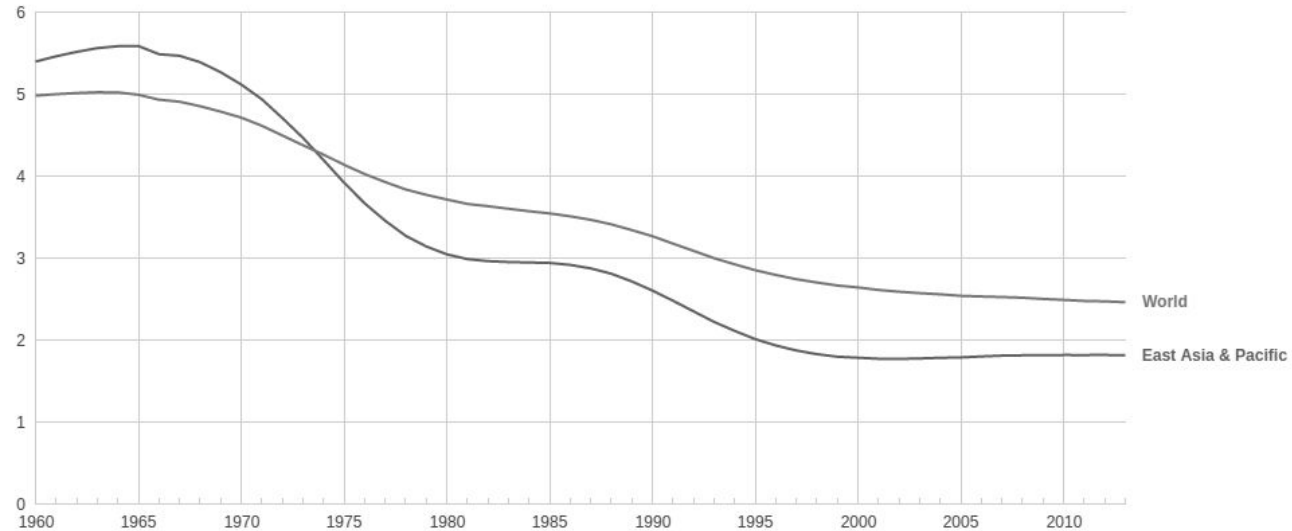
Big picture

World fertility trends

World fertility is rapidly slowing down,

This will reduce the oversupply of labour power on a world scale

Effect seen first in China



Big picture

World fertility is rapidly slowing down,

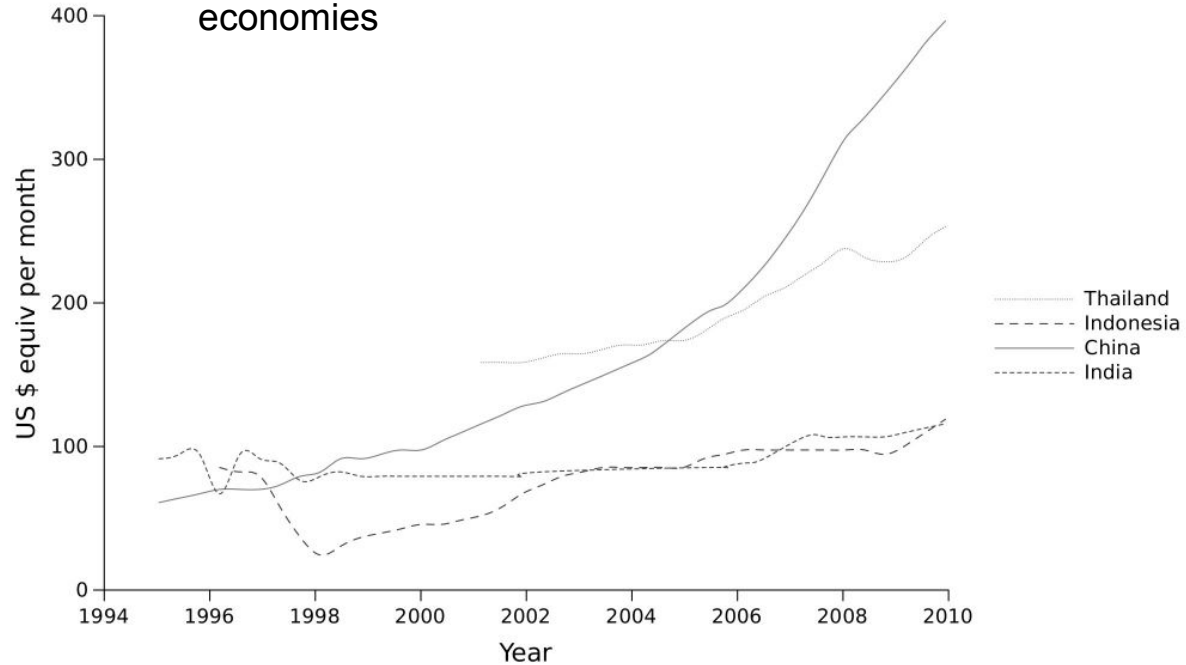
This will reduce the oversupply of labour power on a world scale

Effect seen first in China

Low birth rate, high accumulation rate
→ rapidly rising wages

But both of these are result of socialist macroeconomic planning

Contrast China with other Asian economies



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Contrast China with Germany and USA

Big picture

Effect seen first in China

Low birth rate, high accumulation rate
→ rapidly rising wages

But both of these are result of socialist
macroeconomic planning

Neoliberal model : rapid increase in
labour supply, slow level of
accumulation -> stagnant or falling
wages

