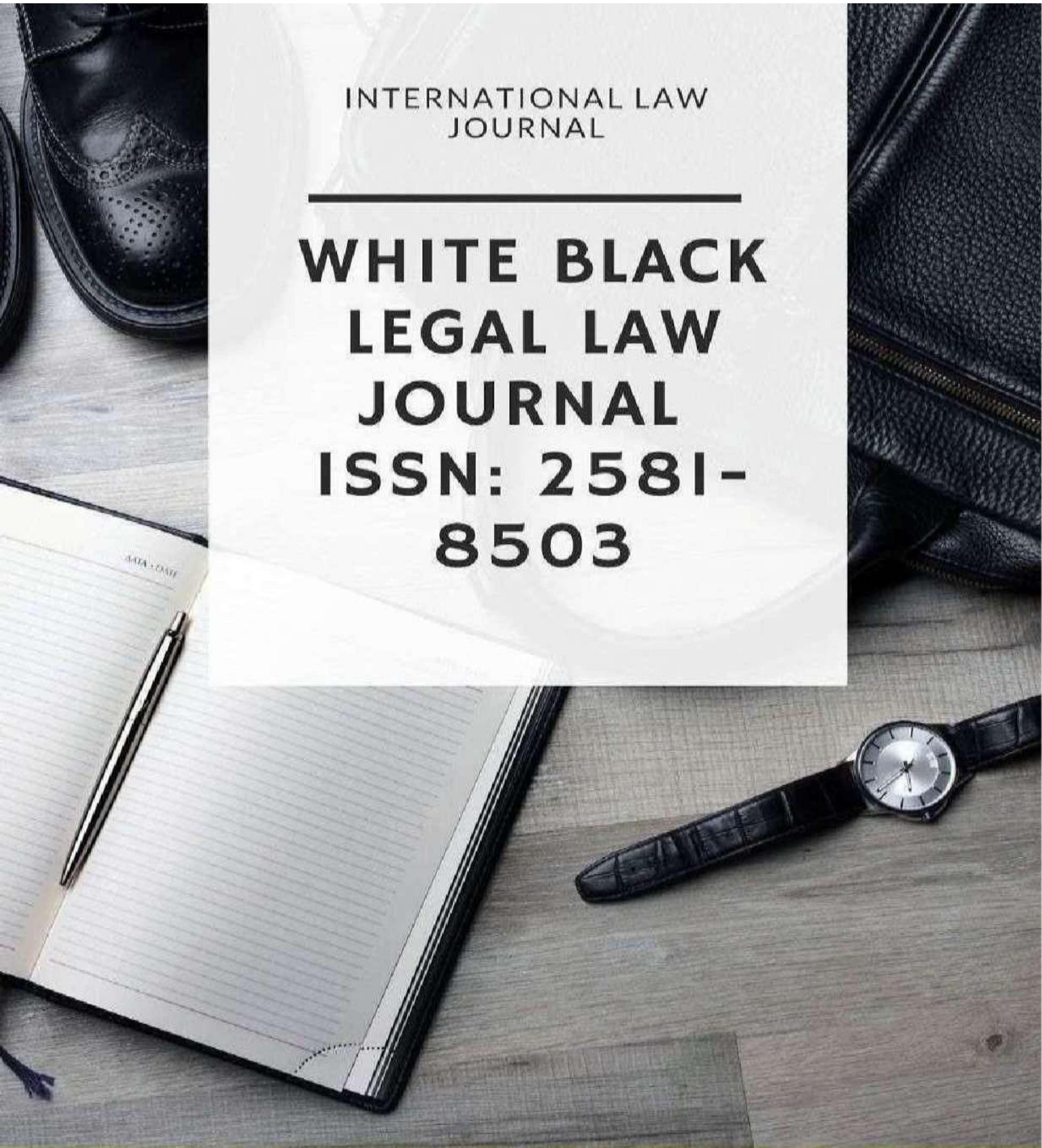

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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

THEORIES OF WAGES AND THEIR IMPACT ON INDUSTRIES

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Abstract

Wage theories are essential to comprehending the complex systems that control labor markets and their significant effects on many industries. This abstract explores a number of theoretical models related to salaries and how they affect industrial sectors. According to conventional economic theory, the equilibrium between labor supply and demand in a market that is competitive determines wages. It asserts that wages typically represent the value added by each extra unit of labor, mirroring the marginal productivity of labor. Industries that exhibit a high degree of labor substitutability or technical innovation are frequently in line with this viewpoint. Neoclassical economics builds on classical theory by taking into account things like institutional influences on wages, human capital, and flaws in the labor market. According to the human capital theory, an employee's abilities, education, and experience all affect their pay, with higher-paying industries typically having employees with more expertise. Institutions of the labor market, such minimum wage regulations and unions, also have a big impact on how much people get paid and how they are distributed among industries.

Keywords : equilibrium, substitutability, marginal productivity , labor market, minimum wage

Introduction

Before the economic status could become what it is today, it underwent a number of theories. The role of theories is crucial because they help people understand what has been studied up to this point and why certain theories are not now accepted. In Economics, wages and productivity are fundamental concepts. They offer a framework for creating economic stability as well as the fundamental components of economic policies. Regarding the relationship between salaries and productivity and how it affects industries, various ideas have been proposed. Over time, certain theories have undergone evolution and assumed a more stable shape than others.

Wages

Wages are defined as the sum of money paid for any labor or service. The Minimum Wages Act of 1948 establishes wages in India. Wages are defined as "any remuneration which is made by monetary mode for a work done under an employment" in Section 2(4) of the Act. This section also lists some exclusions, such as the fact that wages do not include PPF contributions, household supplies, or travel expenses. Similar to other prices, wages are based on supply and demand in the labour market.

Productivity

Productivity can be defined as a way to gauge how well items work and how much the economy can produce 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 determined by how well the input processes are used and by ensuring that the maximum amount of output is received.

Theories of Wages

Subsistence Theory of Wages

[1]The Iron Law of Wages or the Brazen Law of Wages are other names for this notion. Originally conceived by the Physiocrats, Lasalle, a German economist, refined it later. In his book "The Wealth of Nations," the father of economics, Adam Smith, also discussed this notion and said that wages should be sufficient to allow workers to support their families and maintain a standard of living. One of this theory's greatest proponents, David Ricardo, made contributions that aided in its development. Karl Marx also made it the foundation for his Theory of Exploitation. According to the principle, a worker should receive a wage that is just enough to cover their basic expenses. It establishes a subsistence payment level that must be adhered to, and wages must be paid in accordance with it,

[1] https://www.economicsdiscussion.net/theories-of-wages/top-6-theories-of-wages-with-criticisms/21067

without going beyond. Its proponents maintained that if wages fall below the specified subsistence level, there will be a decrease in labor supply because of population declines, which will then cause wages to rise and cause a further decrease in supply. Furthermore, if wages rise above the subsistence level, more workers will be available, which would ultimately result in lower earnings. This idea therefore placed a strong emphasis on maintaining a subsistence level in order to keep wages fixed there and prevent future situations with higher or lower wages. David Ricardo outlines the two underlying presumptions of this theory: the first is that population growth is outpacing food production and is therefore susceptible to the Law of Diminishing Returns.

However, practically speaking, this theory was nonsensical. This idea has numerous flaws that made it nearly impossible to accept for an extended length of time. There are numerous employment types in an industrialized nation, and as a result, earnings are considered to vary depending on the nature of the occupation. This hypothesis does not take equal factors into account and is predicated on industry-wide salary parity, which is impractical.

There has also been criticism that this theory just considers the supply of the market and ignores the demand, which is important because supply and demand are interdependent in a market, and this is also true in the case of salaries, where demand can have a significant impact on supply. Another reason for criticism of this theory is that it solely relies on the Malthusian Theory of Population, which is not always applicable. It has been assumed that when earnings rise, the population of the nation will also rise, yet this may not be the case in many industrialized nations.

This argument does not always hold true as an increase in salaries like this raises the standard of living in industrialized nations. Additionally, it is criticized for only holding true for extended periods of time and failing to provide specifics or results within a year. This makes it challenging to analyze the theory, particularly in the industrial setting where these kinds of computations are crucial.

Standard of living Theory of Wage

It developed the Subsistence Theory of Wages and appeared in the late 19th century. It established a relationship between workers' wages and their level of living and said that wages ought to be set by the workers' standard of living rather than the subsistence margin. Although this theory seems to have improved upon the earlier idea, it is unsound since the dependence on living standards might differ from person to person and cannot be trusted as a reliable framework for determining salaries. Additionally, it ignored market demand in favor of concentrating solely on the supply side of the equation. Furthermore, this notion was unworkable and highly indirect because people could not receive high pay simply because they had a high quality of living. A worker's level of living may fluctuate over time. To raise such pay, productivity output ought to be present as well.

Wage Fund Theory of Wages

[2]The trade unions within the industries were the ones that criticized this theory the most. In addition to the views of David Ricardo and Adam Smith, J.S. Mill advanced this thesis. According to this hypothesis, wages are determined by the ratio of capital to population. To compute 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 labor force, and thinkers claimed that both population and capital have an impact on market competitiveness.

According to this theory, the capital known as the wage-fund remained fixed because it was believed that paying workers' wages would have an impact on the capital of commodities or equipment employed in production, which would ultimately lead to a fall in wages. Because the wages-fund is thus maintained constant, raising salaries causes the population to shrink, and raising the population causes wages to rise. The two are inversely related to one another. A mathematical dimension is added to the theory: "Wages= Wage fund/population."

This idea was interpreted as an assault on the trade union movement and its dysfunction in the industries. Trade unions are unable to raise salaries without lowering the workforce 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 other problems with this hypothesis as well. According to this idea, the wages-fund, which is meant to stay constant, is not defined. Because of this, it is unclear what exactly makes up the entire capital.

Additionally, there has been a degradation in worker quality as a result of the population-wage relationship, which ignores the possibility that raising wages may have an impact on both worker and job quality. However, in the situation of increasing returns, both wages and profits will increase. It was also considered that wages can only rise in the presence of profits. While this theory considered

[2]https://www.jstor.org/stable/2485659?Search=yes&resultItemClick=true&searchText=theories&searchText=of&searchText=wages&searchUri=%2Faction%2FdoBasicSearch%3FQuery%3Dtheories%2Bof%2Bwages%26amp%3Bacc%3Doff%26amp%3Bwc%3Don%26amp%3Bfc%3Doff%26amp%3Bgroup%3Dnone&ab_segments=0%2Fbasic_SYC-5187%2Ftest&seq=1#metadata_info_tab_contents

supply and demand, it was unable to establish the pay rate, which compromised trade union independence and bargaining power.

Surplus- Value Theory of Wages

This notion was proposed by Karl Marx. He went against the Subsistence Theory of Wages, claiming that the unemployment rate is what drives wages to a subsistence level rather than the size of the population. According to him, laborers are just tools used by capitalists to acquire more capital. When a worker produces more, however, surplus value is created and added to the industry's capital, which is then returned to the owner. Marx's thesis criticizes capitalists and highlights the unfavorable features of enterprises that force workers to put in longer hours than they are compensated for. It states a situation where even overtime is not paid to the workers and the extra productivity is used by the owners of such industry to increase their capital.

Bargaining Theory of Wages

According to this hypothesis, workers' bargaining strength determines pay. This hypothesis was put forth by John Davidson in his book "The Bargain Theory of Wages," which claimed that a number of factors affect the wages in a labor-producer contract. This notion states that an employee will be paid more the more he is able to work. This is useful in small businesses for laborers who are hired on a temporary or daily basis, or for the purpose of transporting goods via lorry or another mode of transportation.

Residual Claimant Theory of Wages

This idea, which was put forth by Professor Walker, holds that an employee's pay is equal to the product less rent, profit, and interest. Consequently, it is believed that rent, interest, and profits are not included in wages. Wages should be paid to employees after deducting these factors from the capital of productivity. This hypothesis was riddled with errors because wages in an industry are established before production begins, so it was impossible to adjust them after production began. Consequently, rather than the laborer, the entrepreneur will be the remaining claimant in this situation. Moreover, it is pointless to deduct profits and rent because this will not alter the reality that landlords' and businesses' capital is not set. There has been criticism that this theory fails to take into account the trade unions and the worker supply.

Marginal Productivity Theory of Wages

[3]It is thought to be the most plausible idea out of all of them. This hypothesis was first proposed by Von Thunen, and it was further expanded by J.B. Clark, Wicksteed, and Walrus. According to the principle, an employee's pay is based on how productive they are. It says that the Law of Diminishing Marginal Utility dictates that as an employer continues to engage labor, the marginal product will decrease; as a result, labor is employed up to a point when wages are equivalent to a marginal level. According to Prof. S.E. Thomas, because of the labor force's competitiveness, a wage rate equal to the marginal product is established, ensuring that the earnings offered are commensurate with the employed workers. This idea, which is most applicable in real life situations, states that an employer can only hire employees up to the point at which he can afford to pay productivity wages. Productivity is therefore valued. Additionally, it complies with other market elements like supply and demand. When applying this theory, it is assumed that all variables, including worker mobility, perfect competition, and technological advancements, remain unchanged. This is one of the things that makes this hypothesis vulnerable to critique.It is essentially insufficient because it is not uniform in nature and may not function at all when conditions change. It addresses the marginal productivity that could be impacted by the low pay being offered.

Conclusion

Other theories also provide different interpretations and wage structures. It has been established that the theory of marginal productivity best explains salaries. Although it has its share of critics, its strong correlation with worker productivity makes it unique. The industries have been functioning largely according to the same mechanism in many places, but achieving the goal is difficult due to the aforementioned issues. On the other hand, this theory is simpler and provides a better mechanism in a market than the others. There are other theories as well. For example, supply and demand theory

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[3]https://www.jstor.org/stable/3000027?Search=yes&resultItemClick=true&searchText=theories&searchText=of&searchText=wages&searchUri=%2Faction%2FdoBasicSearch%3FQuery%3Dtheories%2Bof%2Bwages%26amp%3Bacc%3Doff%26amp%3Bwc%3Don%26amp%3Bfc%3Doff%26amp%3Bgroup%3Dnone&ab_segments=0%2Fbasic_SYC-5187%2Ftest&refreqid=search%3Afb39c8236b13add1d2dc4db4dcae2098&seq=1#metadata_info_tab_contents

only considers employment, wages, and supply and demand in the market.

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