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ORIGINS OF WAGE THEORY AS THE MOST IMPORTANT
INCOME OF THE POPULATION

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Abstract

The existence of classical and “neoclassical” approaches can be considered as the main ones in determining the amount of wages. The peculiarity of the classical approach, starting with A. Smith and his predecessors, and later developed by Marx, was that wages were considered as the cost of the means of subsistence necessary for the reproduction of the labor force. Within the framework of the concept of the surplus value created by Marx profits, interest and rents are created by unpaid labor of workers, thus ignoring the importance of the remaining factors of production in the creative process, which, in turn, caused significant contradictions in this theory. The opposite approach developed in the framework of the theory of “three factors of production” considered wages as the payment for work without distinguishing between workforce and labor and denying the exploitation of an employee in the payment of all work as the provision of labor services. This provision was the main methodological difference in the approach to the essence of wages from the Marxist theory, which argued that there was the exploitation of wage labor and the antagonism of class interests. The proponents of modern Western wage concepts deny the fact of exploitation of employees, since, in their opinion, employees are paid the full product of their work, thereby confirming the existence of a fair social distribution and the absence of class contradictions in the society.

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1. Introduction

Today one of the main tasks of the Russian government is the growth of actual wages in the country, where other types of personal income depend on its dynamics. The increase in socio-economic efficiency is caused by a significant increase in wages and domestic demand based on effective employment, which is in turn related to economic reconstruction and the activation of investment and innovation. Low wages are an overwhelming factor for economic development, which affects not only the standard of living of the society, but also has a negative impact on labor motivation, domestic demand reducing the incentives for productivity and innovation growth (Abalkin, 2004).

2. Problem Statement

The paper studies the most important aspects of the evolution of wage theories.

3. Research Questions

The paper analyzes the processes of formation and development of basic scientific ideas and approaches to the essence of such a crucial economic category as wages.

4. Purpose of the Study

The purpose of this work is to study some aspects of the evolution of wage theories in the framework of classical and “neoclassical” scientific approaches.

5. Research Methods

This scientific study was carried out using the methods of comparative analysis, statistical analysis, functional analysis, positive and normative analysis. The work was carried out in accordance with the problem-chronological principle, the principles of scientific objectivity and systematicity.

6. Findings

The formation of the principle of labor law as the protection against unemployment and the promotion of employment took place in the context of the market transformation of the Russian economy and with the emergence of such a phenomenon as unemployment, which, since the 30s of the last century, was officially considered absent in the country. The Law of the RSFSR “On Employment in the RSFSR” was adopted on April 19, 1991 in order to provide a legislative framework for this principle, which was subsequently amended and supplemented. The state is moving from guaranteeing employment to promoting employment and protecting against unemployment.

Thus, with the development of market relations in the country, the state, having transferred all labor issues to entrepreneurs, practically avoided addressing them, and entrepreneurs were often not sufficiently prepared to use the opportunities that they had in order to stimulate the material interest of workers. In the market economy, when labor becomes a commodity and wages become its value, such

previously unknown problems appear as social insecurity, unemployment, competition in the labor market, the need for migration in search of work.

Compared to the previous Soviet system of labor organization, the market with the change of the employer, where the main employer was not the state, but the private owner of production facilities, retained the hired nature of labor, and economic methods of its organization were used instead of administrative. Thus, the Labor Code of the Russian Federation of 1971 imposed the obligation to work on every able-bodied citizen of the country granting the freedom of profession, occupation and place of work. The new Labor Code of 2001, on the basis of article 37 of the Constitution of the Russian Federation, establishes the right of a citizen of the country to freedom of labor.

The history of political economy highlights two main approaches to the amount of wages as a monetary expression of the cost of labor – classical and “neoclassical”. The classical approach, starting with A. Smith and his predecessors, and further developed in the works of K. Marx, is that wages were reduced to the cost of livelihood, which was necessary to ensure certain living conditions of an employee, i.e. to reproduce the labor force.

Although A. Smith is the first economist to systematically interpret the theory of wages within the framework of a clear classification of income in a capitalist society, various theories in this field were put forward even before, but they were quite all-encompassing (Schumpeter, 2001). In turn, A. Smith anticipating all the wage theories that appeared in the 19th century, which were based on exploitation and the strong position of employers in bargaining, also makes the assumption that labor appears as a residual claimant (Schumpeter, 2001).

It should be noted that before A. Smith the most important contribution was made by Child, who argued that there was a proportional relationship between wealth and poverty of most peoples of civilized countries and its small number or multitude (Schumpeter, 2001). According to Child, the small or large number of the population was determined by its employment, and the amount of wages was determined by the demand for labor, on the one hand, and its supply, on the other hand. At the same time, he does not say anything about a certain level of wages, which should be established under the influence of the mechanism of demand and supply in the labor market, and about the cost of living, but states that the high level of wages is the evidence of the country’s wealth (Schumpeter, 2001).

Smith identified such types of income as wages earned by employees; capitalist profits; rent to farmers. As it is known, before Smith the income according to mercantilists was reduced to trade profit, and physiocrats distinguished between two types of income in the form of land rent and wages. Smith recognized the division of the society into different social levels and groups emphasizing that the so-called primary income goes to the principal classes, while the secondary income, i.e. redistributed, is received by the rest.

Adam Smith began the study each form of income separately with wages, which he defined as the natural remuneration for labor and as a form of labor income, thereby distinguishing it from profits and rents. He felt certain that wages always existed in any society, both in primitive and capitalist. Smith only saw the quantitative difference between the income of a simple commodity producer and the wages of a hired worker believing that wages in simple commodity production correspond to the entire product of an employee’s work, while under capitalism it represents only a part of the value created by an employee.

According to the famous classic, the labor of the worker is a product, like any other product. The cost of labor in Smith's theory is determined by the cost of the means of subsistence necessary for the worker to live and raise children, while the term labor as the ability to work is unknown. Smith also attempts to describe the mechanism of wage fluctuation, the lowest border of which is the physical cost of living, while the price of labor cannot be lower than this value. The merit of Smith's study was that he associated the number of wages with the level of wealth and population of each country believing that the higher the welfare of the state, the higher the wages, respectively, affecting the birth rate and the continuation of the labor force in the country (Belousov & Ershova, 1999).

The economic theory debates on the issue of wages, namely the cost of labor or its results, while the price of labor is identified with the cost of labor, and wages – with the price of labor services. Wages, according to Marx's labor theory, are wages for the "labor" commodity. On the pages of his famous *Capital* Marx defines the cost of labor as the cost of a certain amount of means of subsistence (Marx & Engels, 1960). Critically approaching the ideas of the classics about the bourgeois political economy on the essence of wages on the basis of his theory of surplus value Marx defines wages as a historically defined form of the necessary product under capitalism. The cost of physically necessary funds, without the daily inflow of which the person-worker is unable to resume his life process, is considered by him as the lowest or minimum limit of the labor cost. As Marx noted, if the price of labor falls to the lowest point, then labor can be maintained and manifested only in a decay form, while the value of any product can be determined by the working time that is necessary for the production of a product of normal quality (Fetisov, 2004).

In this matter, Marx's views largely coincide with those of physiocrats and representatives of the classical school – Smith and Ricardo, who distinguished such concepts as the cost and price of labor. The supporters of the classical direction considered the cost of labor as the wage rate, the level of which in the labor market was formed under the influence of demand and supply, and the cost – in the form of expenses necessary for normal living of the employee and his family, which the physiocrats called the necessary price, while Smith and Ricardo – the natural price.

Talking about the difference between the natural and market "price of labor" Ricardo noted that market wages will increase with the development of society and with the increase in its capital, and the duration of this increase will be determined by the increase in the natural price of labor, which, in turn, depends on the natural price of life necessities purchased for wages.

Ricardo emphasized that in the same country the natural price of labor changes at different times and varies greatly in different countries. He associated the market price of labor with the number of offers of workers in the labor market, and made the dynamics of wages dependent on soil fertility and population growth. According to Ricardo, it is beyond argument that a worker creates a higher value than it receives in the form of wages. His profit acted as the balance after deducting wages from the value of goods, and if the necessary work is the basis of the wage received by the employee, then the surplus product is the profit of the owner of production facilities (Ricardo, 1955).

According to the concept of surplus value developed by Marx, profit, interest and rent are created by unpaid labor of workers. Until the middle of the 19th century, in accordance with Marx's calculations, the ratio between necessary and additional labor was one to one, and by the end of the 20th century,

according to economists of various countries, the surplus of the additional product over the necessary was three times (Vidyapina, 2007).

Within the framework of his capitalist accumulation law Marx predicts the inevitable deterioration of the situation of workers, regardless of their level of wages.

In his works at the time of the compilation of the *Manifesto of the Communist Party* Marx and Engels believed that the level of the worker's salary was focused on meeting his minimum needs. Many famous scientists of that time considered "impoverishment" as a natural phenomenon for social development, its "iron law". Thus, in his economic theory Ricardo considered the poverty of the working masses to be logically justified, another English economist Malthus based on biological laws for his statistical justifications of the inevitability in the world of hunger and poverty, Senior described his justifications for the need for low wages and its possible further reduction (Gaidar & Mau, 2004).

It is worth noting that the *Capitalism and Historians* gives the conclusions of researchers about the fallaciousness of existing opinions regarding the deterioration of the situation of workers at an early stage of the industrialization process in England. But at the same time, its authors agree that the opinion about the deterioration of the already poor situation of the working class in the 1830–1840s was quite common (Hayek, 1954).

Fetishization in the Marxist theory of "living" labor as the only source of the surplus product, thus ignoring the importance of the remaining factors of production, caused significant contradictions and fallacy of this theory and, as Schumpeter noted in that regard, the Marx's theory of the surplus value was erroneous, but brilliant.

Considering the problem of labor structure Marx attached great importance to it, and believed that the understanding of all political economy depended on it. Petri (a prominent theorist of the socio-organic school in political economy), analyzing the dual nature of labor discovered by Marx, wrote that the dual nature of labor, on the one hand being a specific, useful work, as a technical natural force, and on the other hand, labor as such, a measure of public relations, was developed with special emphasis by Marx (Afanasyev, 2005).

Marx also paid great attention to the study of such phenomena as working hours, labor productivity, labor intensity that influenced the level of wages. He showed that the growth of the organic structure of capital leads to the formation of labor surplus, i.e. the industrial reserve army of labor. Not leaving the position of economic duality, Marx then analyzes the productive power of labor and here, emphasizing at the same time the duality of its result, comes to the conclusion that the growth of the productive power of labor leads to a simultaneous increase in the mass of life means of both the worker and the capitalist (Marx & Engels, 1960).

It should be noted that K. Marx emphasized serious changes in the development of the capitalist economy in the second half of the 19th century compared to the first half, which he reflected in his *Capital* considering the employee's salary not as the minimum necessary for his life and reproduction, but as some average labor cost, thus recognizing the possibility of increasing workers' well-being (Gaidar & Mau, 2004).

The second neoclassical approach as the opposite approach in the framework of the theory of "three factors of production" developed in the works of such marginalism theorists as Marshall, Clark and

later Keynes defines the level of wages by the size of the labor-created marginal product. As Clark noted by, with whom Keynes also agreed, in each industry wages seek to correspond to the marginal product of public labor, which was used in combination with a certain amount of public capital (Fetisov, 2004).

This approach represented wages as payment for work without distinguishing between laborforce and labor and denying the exploitation of an employee when all his work is paid as the provision of services. Clark also considered the concept of natural wages, similar in essence to the Marxist value of labor, as the cost of the necessary life means for its reproduction (Clark, 1992).

It should be noted that the concept of the marginal product of labor is only a theoretical provision that is not suitable for determining the value of wages and the cost of living, for which the ideas of a classical school that are more adequate to real conditions are applicable.

If it was not possible to explain the difference in wages in the labour theory of value relying only on the cost of working time, then the classical theory of the labor market, which denies the exploitation of labor by capital, limited the intersectoral differences in wages to leveling compensation for the difference in wages. According to this theory, workers of the same qualification are given equal pay for equal work, and enterprises have the opportunity to hire workers of the same productivity and in such a number until the cost of the marginal product of labor of the maximum employee is equal to his salary.

7. Conclusion

In conclusion, it should be noted that in the rich history of wage theories there were also certain curiosities, for example, in the views of the first theorists of the country of the Soviets there were ideas that wages had survived their century. They believed that in the absence of hired labor in socialist production, the need for wages as the price of labor sold to the capitalist disappears. If there is no hired labor, then, accordingly, there is no salary, from which only its external “husk” remains, i.e. the form of money, which in turn also goes to self-destruction with the monetary system. According to these views, the more successful the naturalization process, which is the complete destruction of wages – the market price of the labor force, the more restrictive the practice of incentive remuneration will be (Revzin, 1924).

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