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**Unit-II**

**Theorise of wages**

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# Theories of Wages

Wages policies are fundamental to managing employee compensation. This presentation will explore the key concepts and influential theories that shape wage determination.



# Wages Policy Concept

## 1 Defining Wages

Wages refer to the monetary compensation paid to employees in exchange for their labor and services.

## 2 Policy Objectives

Wages policies aim to ensure fair, competitive, and equitable compensation that attracts and retains talent.

## 3 Key Considerations

Factors like cost of living, productivity, and labor market conditions influence wage policy decisions.



# ILO on Wage Policy

## ILO Principles

The International Labor Organization (ILO) advocates for living wages, minimum wage laws, and collective bargaining.

## Policy Recommendations

The ILO suggests regular minimum wage reviews, social dialogue, and aligning wages with productivity growth.

## Global Impact

ILO wage policies have been influential in shaping labor laws and regulations worldwide.

# National Wage Policy in India

1

## Minimum Wage Act

India's Minimum Wages Act of 1948 established a framework for setting and revising minimum wages.

2

## Wage Boards

Tripartite wage boards were formed to recommend industry-specific wages and policies.

3

## Evolving Framework

The wage policy has since expanded to include comprehensive labor laws and social security measures.



# Ricardo's Subsistence Theory of Wages

## Subsistence Level

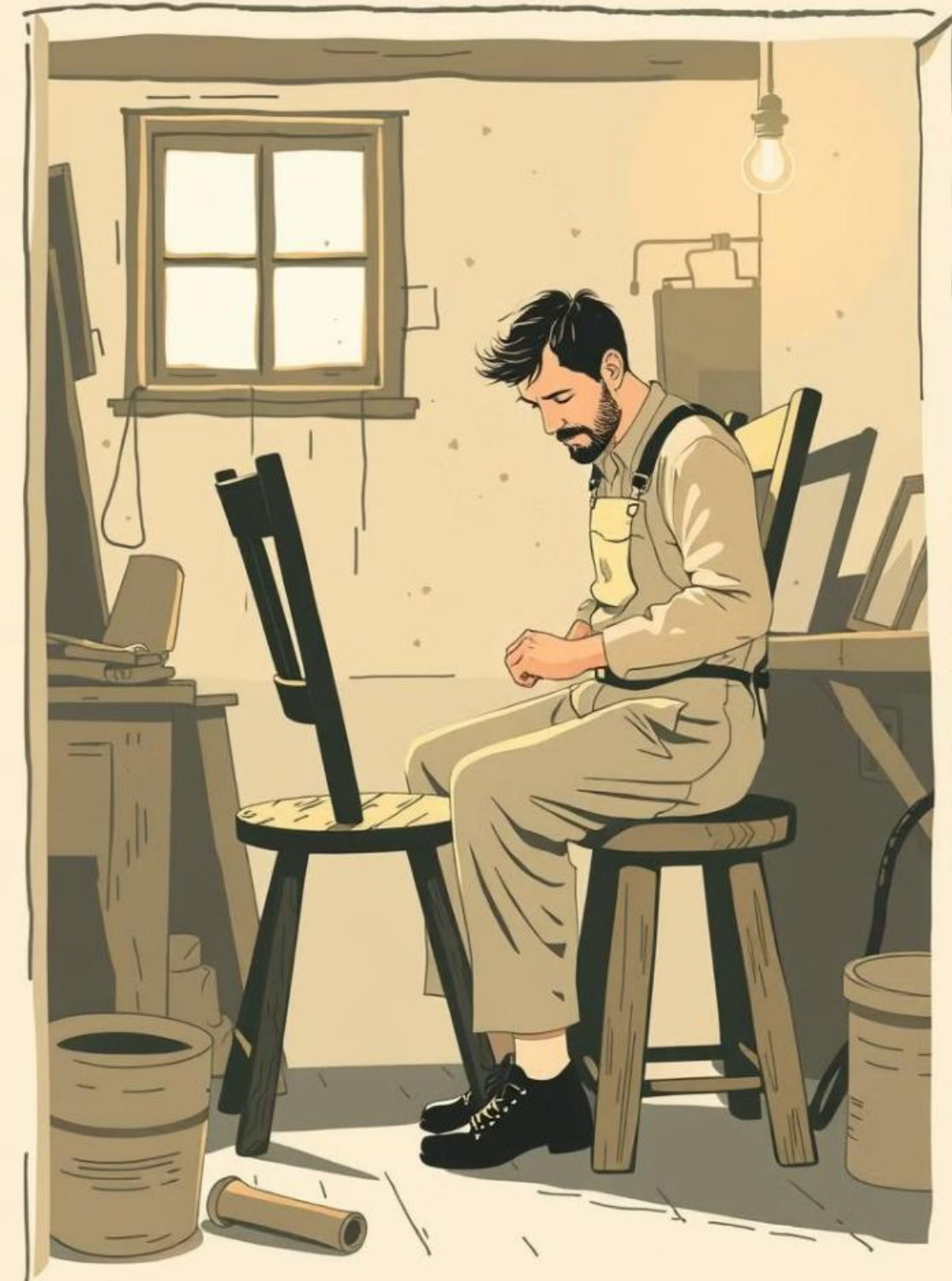
According to Ricardo, wages must be sufficient to maintain the worker and their family at a subsistence level.

## Demand and Supply

Wages are determined by the supply of labor and the demand for it, with a tendency to gravitate towards the subsistence level.

## Critique

This theory has been criticized for its lack of consideration for factors like productivity, cost of living, and worker bargaining power.



# Adam Smith's Wage Fund Theory

## Wage Fund Concept

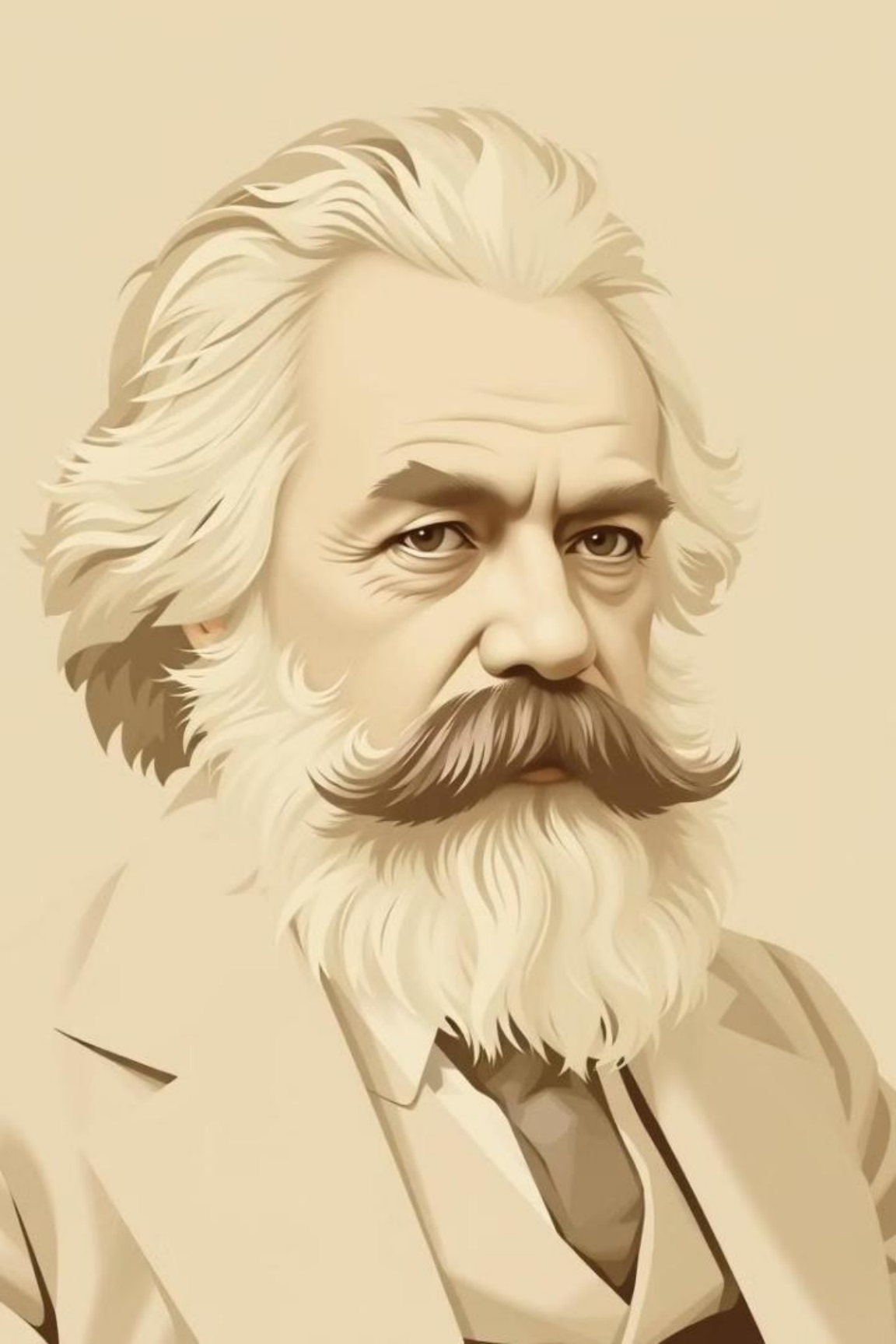
Smith believed that the total wages paid in an economy are limited by the available capital, or "wage fund".

## Demand and Supply

Wages are determined by the demand for labor and the supply of labor, within the constraints of the wage fund.

## Limitations

The theory has been criticized for oversimplifying the complex factors that influence wage determination.



# Marx's Surplus Value Theory

1

## Labor Value

Marx argued that the value of a product is derived from the labor used to produce it.

2

## Surplus Value

The difference between the value of the product and the cost of labor is the "surplus value" that accrues to the capitalist.

3

## Exploitation

Marx viewed this surplus value as a form of exploitation, where workers are not paid the full value of their labor.





# Residual Claimant Theory



## Profit

This theory views wages as the residual amount left after other factors of production (capital, land, etc.) have been compensated.



## Bargaining Power

The bargaining power of workers and employers determines the distribution of this residual between wages and profits.



## Economic Considerations

Factors like productivity, supply and demand, and cost of living also influence the residual wage level.

3000  
5300  
4000

# Purchasing Power Theory

## Wage Income

This theory posits that wages should be set to provide workers with sufficient purchasing power.

## Balanced Economy

The theory advocates for wage policies that balance the needs of workers, employers, and the broader economy.

1

2

3

## Consumer Demand

Adequate wages drive consumer demand, which in turn stimulates economic growth and investment.

# Elliot Jacques Theory of Wages



## Equitable Compensation

Jacques argued that wages should be based on the complexity and responsibility of the work performed, not just market forces.

## Role Complexity

He proposed a system to objectively assess the cognitive demands and decision-making required in different roles.

## Motivational Impact

This theory emphasizes the importance of fair and transparent wage structures for employee motivation and retention.

# Ricardo's Subsistence Theory (Iron Law of Wages)

## Key Idea

Wages are driven by the cost of subsistence for workers, ensuring they have just enough to survive and reproduce. This creates a natural wage floor, making it impossible for wages to rise significantly.

## Impact

This theory contributed to the development of early labor movements and highlighted the challenges of low wages and poor working conditions in the Industrial Revolution.

# Adam Smith's Wage Fund

## Theory

### Key Idea

Employers have a fixed "wage fund" derived from capital, used to pay wages to employees. The size of the fund determines the level of wages, suggesting wages are a function of capital accumulation.

### Impact

Smith's theory emphasized the role of capital in setting wages and paved the way for later economic models that explored the relationship between wages, productivity, and economic growth.

# Marx's Surplus Value Theory

## Key Idea

Capitalists exploit workers by paying them less than the value they create through their labor. The surplus value, the difference between what workers produce and what they are paid, accrues to capitalists, perpetuating inequality.

## Impact

Marx's theory remains influential in understanding class struggle and the unequal distribution of wealth, driving socialist and labor movements to advocate for fairer wages and labor rights.



# Residual Claimant Theory

1

## 1. Profit Sharing

After paying for expenses like capital and materials, any remaining profit goes to those who contribute to production, including workers.

2

## 2. Productivity

Workers' wages are determined by their contribution to the firm's output. Higher productivity leads to higher wages, creating an incentive for individual effort.

3

## 3. Competition

Wages are driven by competition in the labor market, as employers try to attract and retain skilled workers by offering competitive pay and benefits.

# Purchasing Power

## Theory

### Key Idea

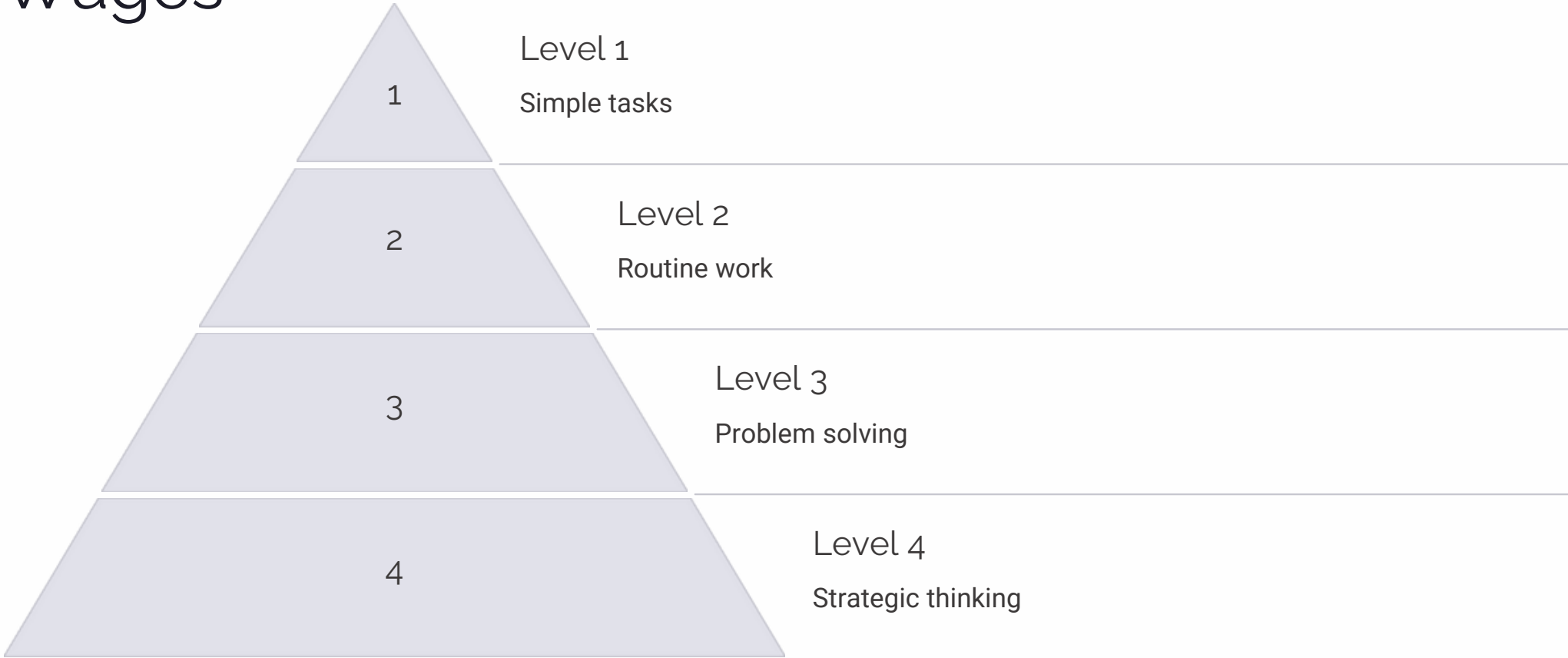
Wages need to be sufficient to allow workers to purchase the goods and services needed for a decent standard of living, accounting for the cost of living and inflation.

### Impact

This theory connects wage levels to consumer spending and economic activity, highlighting the role of wages in supporting overall demand and economic growth.



# Elliot Jacques Theory of Wages



## Wages Policy: Concept and Importance

What is it?

A framework of rules and guidelines that set wage standards and ensure fair compensation for workers.

Why does it matter?

Promotes social justice and economic stability by ensuring fair wages, protecting workers' rights, and promoting productivity.

# Wage Policy Framework





“Jeet ne abonall lial a dirpert

## ILO on Wage Policy



### Minimum Wage

ILO advocates for minimum wage standards to ensure basic living standards for all workers.



### Equal Pay

ILO promotes equal pay for work of equal value, eliminating gender and other forms of discrimination.



### Collective Bargaining

ILO supports collective bargaining to ensure workers' voices are heard in setting wage and working conditions.



# National Wage Policy in India

