

3 Two faces of wages within the economics tradition

Wages as a living, wages as a price

In our examination of the regulation of wages in the twentieth century United States, we pay a great deal of attention to the arguments among academics, regulators, and social reformers about the definition of a fair wage for women and men. These arguments reflect differing assumptions about the process of wage setting in general and the setting of women's and men's wages in particular. Rather than assigning priority to one narrow view of wage setting, we have discerned three simultaneous aspects of wages that can be woven together to help build a richer understanding of the politics, process, and meaning of wage setting. We label these (1) *wages as a living*, (2) *wages as a price*, and (3) *wages as a social practice*.

These three concepts articulate three economic and social functions that wages perform within market economies. They also depict alternative wage-setting processes. We do not claim that these three aspects exhaust the possible understandings of wages from different standpoints. Rather, we recognize that our framework is bounded by our historical and cultural position, by our focus on U.S. experience and labor market policy, and by the initial questions that we chose to ask. Despite these caveats, we propose that a framework that examines the dynamics of living, price, and social practice provides a more nuanced and complex interpretation of gendered labor markets than traditional economic theory. Further, we maintain that wages are set through the interaction among the dynamics we label as living, price, and social practice.

In this chapter and the next, we introduce our theoretical framework for the analysis of wage regulations in Part II of the book. We explain the concepts of wages as a living and a price, and illustrate their development in the writings of economists. This will not be an exhaustive history of theorizing on wages, but an illustrative discussion of the major currents informing these differing views. This survey is followed in Chapter 4 by an examination of the contributions of contemporary feminist writers to an understanding of gendered economic outcomes, highlighting recent developments in practice theory.

While theorizing wages as a price is most associated with neoclassical economics, and wages as a living with Marxism and social economics, it

would be oversimplified to create rigid theoretical boundaries. All schools of economic thought acknowledge the presence of market forces in wage setting, although only neoclassicals privilege market analysis over other factors. In fact, it was not until the post-World War II period that neoclassical economics abandoned institutional and normative analysis to produce purely market-based analyses of wage determination. Further, although we draw upon feminism in defining wages as a social practice, institutionalism and other heterodox theories also recognize the roles played by historical, cultural, and ideological factors in creating economic outcomes.¹

The different wage policies over the twentieth century, discussed in the chapters to come, can be viewed as reflecting the relative emphasis given to each of these themes. The implicit wage theories articulated by economic and political actors and the policies associated with them are shaped in part by prevailing academic economic discourse. Participants in specific policy debates (about, for example, minimum wages for women or equal pay for equal work) often viewed wages complexly, from more than one of these perspectives. And the policy outcomes tended to reflect the relative strengths of one or more of these facets of wages.

Wages as a living

Economic theories emphasizing wages as a living begin with the premise that the wage paid to labor must be sufficient to guarantee the continuing health and productivity of the worker. More than this, the wage must enable the working class to raise a healthy and productive next generation, to "reproduce" itself over time. Arguments for wages as a living are often expressed normatively, in terms of considerations of fairness. But the concept of wages as a living has also been employed analytically, as a precondition for the efficient and effective functioning of a market-based economic system. Classical economists of the eighteenth and nineteenth centuries in particular tended to argue that the economy could not flourish without an adequate supply of laborers. And an adequate supply of laborers could not be guaranteed over time unless wages allowed for the reproduction of the working class.

Even analytic arguments for a living wage, however, have to address the question of what, exactly, constitutes a "living." Unless it is viewed as a biological minimum below which survival is unlikely, the living wage is a social construct, based on the historically specific, accepted standard of living for the working class. Further, the notion of a living is gendered and racialized, as social understandings of an appropriate wage have varied historically according to the sex and race of the worker. Both its social nature and its gendered and racialized content make the concept of the living wage a potent subject of contention, as we will document in the chapters that follow.

Classical economists and subsistence wages

Adam Smith's *The Wealth of Nations*, published in 1776, is widely viewed as providing a foundation for subsequent analysis of the newly emerging industrial capitalist economic system. In his chapter "On Wages," Smith built on the tradition of political economy of his time in asserting that wages have a base in subsistence – defined as "the lowest which is consistent with common humanity": "A man must always live by his work, and his wages must at least be sufficient to maintain him" (Smith 1937: 67). The use of the male pronoun was intentional on Smith's part because he recognized that wages reflected the gendered division of labor that he viewed as natural. Thus, men needed to earn not just enough to support themselves, but "on most occasions . . . somewhat more," in order to support children. A wife, Smith supposed, could earn only enough to support herself "on account of her necessary attendance on the children" (1937: 68). But he did not view wives as requiring support from their husbands.

Smith's richly complex chapter on wages in fact incorporated all three threads of the discourse on wages. Forces of demand and supply, he argued, could cause wages to deviate from the subsistence level. Indeed, his hope was for a sufficient level of economic growth that demand for labor outran supply, allowing wages to rise to a level of comfort. Smith also recognized wages as reflecting power differentials between employers (who in his day were allowed to combine with each other) and laborers (who were not allowed to form unions), and thus reinforcing class positions. In a famous passage early in the chapter, Smith claimed that "Masters are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labor above their actual rate" or, worse, to "sink the wages of labor even below this rate" (1937: 66–7).

But he was consistent in viewing wages as a living as the central force in wage setting, "otherwise," Smith argued, "it would be impossible for (the worker) to bring up a family, and the race of such workmen could not last beyond the first generation" (1937: 68). Note that Smith's understanding of a living wage was a family wage. Reflecting common social practice in Britain in the pre-Industrial Revolution period (Pinchbeck 1969), he argued that both men and women contributed to family support, at the same time that he took it for granted that men needed to earn a family wage while women would earn less.

In Volume I of his major three-volume economic analysis, *Capital*, first published in 1867, Karl Marx developed a theory of wages that built upon Smith's classical conception of wages as a living. However, Marx placed his analysis more firmly within the historically specific and contentious relationship between capitalist employers and workers. Throughout human history, people have needed to combine their labor with natural materials in order to create use-values, products on which they can subsist. Marx described this labor process as the "everlasting Nature-imposed condition of human

existence" (1967: v. I, 184). The organization of production, and the resulting relationships among people, are historically specific human constructions. Wage labor as a widespread and systematic practice, Marx argued, was unique to capitalist production. It could only occur when substantial numbers of workers appeared, willing to offer to sell their labor power (ability to labor); and this could only occur under two concrete historical circumstances. First, workers had to be in possession of their own labor power. They could not be either slaves or serfs, neither of whom could freely offer their labor power for sale. And second, they had to have nothing to sell except for their labor, nor could they be in a position to use their own labor power to produce commodities for sale (1967: v. I, 168–9). Both of these conditions came together with the development of capitalism, as industrialization drove independent craft producers out of business and the transformation of agriculture moved former serfs off the land. Marx emphasized that this process, unlike the labor process in general, was human-constructed: "Nature does not produce on the one side owners of money or commodities, and on the other men possessing nothing but their own labor-power" (1967: v. I, 169).

Once labor power became a commodity, commonly offered for sale in the market, it commanded a systematic price, arrived at by the same principle as other commodities. Where Marx differs from neoclassical theories of wages as a price, however, is in the nature of how commodity prices are set. For Marx as for many other classical economists, the inherent value of commodities was proportional to the labor time required to produce them. (This was termed the *labor theory of value*.) A wage, then, had to reflect the labor embedded in the commodities and services required to produce the worker's labor power – in other words, the *necessary living expenses* of the worker. In a passage very reminiscent of Smith, Marx noted that this living wage had to be sufficient not only to support the worker, but to support his children as well "in order that this race of peculiar commodity-owners may perpetuate its appearance in the market" (1967: v. I, 172).² The exact amount considered sufficient to reproduce the worker's labor power over time would depend on the historically specific standard of living for members of the working class. This standard, of course, could be a point of contention between workers and capitalists. Marx had little illusion about the tendency of employers to drive down living standards whenever possible.

In his initial discussion of wages, Marx, unlike Smith, made no mention of women workers. In subsequent chapters of *Capital*, he documented the tendency of employers to substitute the labor of children and women for that of men, with a resulting decrease in wages, and often appalling working conditions. Like most analysts of his period, Marx naturalized the gendered division of labor in the family, seeing it as based on "a purely physiological foundation" (1967: v. I, 351). In the workplace, however, he viewed this division of labor as largely driven by capitalists' attempts to cheapen labor. Mechanization lightened tasks and therefore allowed the employment of

women and children.³ But more importantly, in Marx's view, employing all members of the family lowered wage costs for the employer, since the cost of reproducing the working class was spread over, perhaps, four people rather than only one.

Incorporating women into wage labor was very costly to working-class families, Marx argued, because women were then unable to provide much of the unpaid domestic labor families needed to survive. While total family income was likely to rise when women and children entered wage labor, the family was nevertheless likely to find itself in fact worse off, as ready-made products had to be purchased to replace the mother's labor (1967: v. I, 395 n. 2). The employment of female children compounded the problem since girls missed the opportunity to learn domestic skills from their mothers.

This discussion is interesting because it shows Marx's awareness of the importance of domestic labor for the support of working-class families and because it demonstrates his assumption that the gendered division of labor in the home was a natural, rather than a social construct. Marx's analysis has been criticized by feminist writers for naturalizing the subordination of women (Hartmann 1981 [1979]; Folbre 1993). His tendency to conflate women and children, and implicit assumption that women should appropriately remain at home, to avoid "moral degradation" (1967: v. I, 399) reflected the prominent gender ideology of his day.⁴ Perhaps more to the point, this view limited his analysis of wages. While Marx, as we saw, developed a living wage analysis, and while he was clear that this wage was contended between workers and employers, he offered no explanation for the lower wages received by women and children other than their "more pliant and docile character" (1967: v. I, 403). Nevertheless, both his identification of the connection between domestic labor and wages, and his systematic examination of the social construction of wages through market forces and conflict between workers and capitalists, constituted substantial further developments of living wage analysis.

The inefficiency of parasitic industries

In the late nineteenth century, Sidney and Beatrice Webb took living wage analysis in a different and very influential direction, arguing that the payment of living wages to the working class was in the interest not only of workers but also of the middle class and, ultimately, even of most employers. The Webbs were members of the Fabian socialist movement. They supported socialism on the grounds that it was more efficient than capitalism, which they saw as wasteful and corrupt. Socialism, by being more efficient, had the potential of making everyone better off.

In their book *Industrial Democracy* and other writings, the Webbs used living wage analysis as part of their critique of capitalism: capitalism was inefficient, in part, because it fostered employers who paid less than living wages. Echoing Smith and Marx, they defined a living wage as one that would

support workers "unimpaired in numbers and vigor, with a sufficient number of children to fill all vacancies caused by death or superannuation" (1920: 751). A far-sighted employer would want to pay this wage, recognizing that living wages would "increase the activities and improve the character of both brain and manual workers" so as "to heighten the faculties and enlarge the enjoyments of the community as a whole" (1920: 703).

However, even far-sighted employers could not always set wages as they wished. Wages were set through "higgling of the market" between frequently unorganized workers and employers who were very inclined to combine with each other. In these bargains, workers were doubly disadvantaged. They lacked knowledge of the employer's economic condition with which to judge how much to ask for in wages. And second, workers were too poor and too desperate to hold out for a higher wage. The employer, by contrast, knew both the state of the market and the "essential economic weakness" of the worker (1920: 655-7). Shortsighted and greedy employers would be motivated to drive wages down as far as possible, and the far-sighted employers would be forced to follow suit in order to remain competitive.

The result was a widespread problem of wages below the necessary level that would allow workers to work to capacity and raise a healthy and productive next generation. In some cases, in so-called "sweated" industries,⁵ the pay would be so low that workers could not survive without a subsidy either from the income of other family members in better-paid industries, from private charities, or from public poor relief. Such employers the Webbs termed "parasitic," because they reaped profit by paying their workers less than the total social costs of reproducing their labor. Women and children, they argued, were particularly likely to be paid less than a living wage (1920: 749, 750).

The existence of parasitic industries was a problem not only for the workers they employed, but for the society as a whole. Society would have to pay the difference between the wage and a living for the workers. Additionally, low wages provided no incentive for employers to improve their production techniques or use their workers efficiently. Because of their lower costs, these sweated trades could expand at the expense of self-supporting trades, with negative effects on national productivity. The Webbs advocated a nationally mandated minimum wage at a level that provided an adequate living. By forcing parasitic trades to pay the true social cost of the labor they employed, national efficiency would be improved through innovation and through improvements in workers' health and productivity. Some sweated trades might go under or leave the country, but this would allow the capital and labor they had employed to be redistributed to more profitable uses (1920: 779).

The Webbs' concept of "parasitic industries" was very influential among social reformers, who employed it in their campaigns to improve pay and conditions for workers (see Chapter 5). While the notion of a living wage was for the Webbs, as for Smith and Marx, an analytic concept, many reformers

also used it in a moral sense: society owed a living to those who worked hard. This normative use of a living wage also occurred in the writings of early neoclassical writers, whose theories of wage setting are more usually associated with wages as a price (to be addressed below). While, as we will see, the theorizing of neoclassical economists generally presumes that markets work well and wage bargains are freely arrived at, the early neoclassicals qualified their market analysis with acknowledgments that markets in practice may involve coercion, and with assertions about society's responsibility to provide a living for its citizens.

A. C. Pigou in Great Britain and John Bates Clark in the United States were two early and rigorous developers of market-based analyses that presumed that workers would be paid according to the marginal value added by their labor, a wage that Pigou labeled "fair." Interference with this fair wage was unwarranted since, assuming markets operated well, if a worker was paid less than a living wage, it was because that worker's labor was worth less. This low wage, therefore, did not waste community resources, he believed, and did not constitute parasitism (Pigou 1960 [1932]: 601). However, while Pigou opposed minimum wages on this ground (with some small and grudging exceptions), he did in fact believe that workers should be guaranteed a living. In an article in the periodical *Nineteenth Century* in 1913, Pigou called for a guaranteed minimum income, paid by the state and adjusted for family size.⁶ His justification was moral: "Though the sky should fall, there are some conditions below which we, as a civilized people, can never allow any fellow-citizen to fall" (1913: 646).

John Bates Clark, an important early developer of the theory of wages as a price, also expressed moral support for a living wage, and in fact reluctantly endorsed a minimum wage to achieve this goal. While he based his work almost exclusively on market-based analysis, an article in *Atlantic* in 1913 indicated his awareness of market imperfection. He began his article with the following assertion: "If in every large city thousands of persons must continue to work hard and get less than a living, the fact is an indictment of civilization" (1913: 289). Workers might be earning less than a living because they lacked skills or because their employers were unproductive. But they might also earn less than a living, Clark conceded (echoing Smith, Marx, and the Webbs), because workers without unions to bargain for them could find themselves easily coerced into accepting too low a wage. Bluntly put, "Hunger-discipline disqualified the worker for making a successful bargain" (1913: 292). Whether low wages were a result of low skill or coercion, the state had a responsibility to ensure the workers a living. If establishing a minimum wage at a living level caused workers to lose their jobs, the government should provide emergency employment for them.

The ethical obligation of employers

During the early part of twentieth century, many economists related their work to religious as well as political movements to raise wages and reduce poverty; they held that the "doctrine of *laissez-faire* is unsafe in politics and unsound in morals" (Gearty 1953: 86-93; see also McLoughlin 1978). Richard T. Ely, one of the founders of the American Economic Association, was himself devoutly Christian and based his support of movements to improve the wages and working conditions of labor on his theological as well as economic beliefs. In his autobiography *Ground Under Our Feet*, Ely defended the idea that economics should be "first and foremost a science of human relationships" (1938: 121). He decried the *laissez-faire* orthodoxy that dominated the discipline, arguing that a "crust" had formed over political economy.⁷ By reducing economics to the study of natural laws and principles that were supposed to hold in all times and places, abstract economics had devalued human beings as mere instruments of the free market mechanism. In protest, Ely and his fellow "rebels" founded the American Economic Association as an organization committed to freedom of discussion.⁸ The original platform of the organization began with the assertion that "We regard the state as an agency whose positive assistance is one of the indispensable conditions of human progress" (Ely 1938: 140).

Ely wrote the introduction to one of the major U.S. works in defense of a living wage. *A Living Wage: Its Ethical and Economic Aspects* was written by ethicist, teacher, and scholar-activist Monsignor John A. Ryan (1906). In his introduction, Ely, a Protestant, avows that Ryan's *A Living Wage* is "the first attempt in the English language to elaborate what may be called a Roman Catholic system of political economy" (Ryan 1906: xii). Ryan was the first director of the Social Action Department of the National Catholic Welfare Conference (predecessor of the National Conference of Catholic Bishops-United States Catholic Conference). He became a high-profile activist during the New Deal. Closely connected to economic policy makers in the Roosevelt administration, Ryan was a key supporter of a federal minimum (living) wage and passage of the Fair Labor Standards Act of 1938 (see Chapter 6).

Ryan's work was a landmark in the development of social economics, a movement with theological roots in Roman Catholic doctrine. Activity by Catholic social movements to remedy economic injustice within industry in Europe prompted the encyclical *Rerum Novarum* or *On the Condition of Labor* in 1891. In this encyclical, Pope Leo XIII "converted the Living Wage doctrine from an implicit to an explicit principle of Catholic ethics" (Ryan 1906: 34). In the section titled "Just Wages," Pope Leo wrote:

that the remuneration must be enough to support the wage-earner in reasonable and frugal comfort. If through necessity or fear of a worse

evil, the workman accepts harder conditions because an employer or contractor will give him no better, he is the victim of force and injustice. (Leo XIII 1891: 27-8)

Rerum Novarum drew upon the scholastic idea of a just price in the works of Thomas Aquinas to advocate a specific economic practice, a just wage.⁹ Elaborating upon the role of the state in a later encyclical, *Quadragesimo Anno*, Pope Pius XI (1931) wrote that if an employer cannot pay a living wage, the state is obliged to change the situation so that workers can receive a living wage. What was implied in *Rerum Novarum*, but directly alluded to in the later encyclical, was more precisely a family living wage for a male head of household and his dependents: "In the first place, the wage paid to the workman must be sufficient for the support of himself and of his family" (1931: 20). In general, Catholic teaching promoted the view that a family wage enabled women to concentrate on their work, and their duty, in the home (Fogarty 1957: 91).

Ryan, an avid student of economics, was deeply impressed with and heavily influenced by *Rerum Novarum* (Beckley 1996). Combining ethical and economic arguments, Ryan offers that human dignity is possible only if workers have the material conditions necessary for survival. Material well-being is based not on subsistence, but a reasonable and decent living. Further, material support is necessary so that the family can serve as a locus of spiritual education and formation. A living wage, according to Ryan, is a "decent livelihood," the ability to live in "a reasonable degree of comfort" (1906: 73).

Ryan's program for social justice was solidified with the publication of his *Distributive Justice* in 1916. In *Distributive Justice*, Ryan specifies the elements of a living wage as access to:

food, clothing, housing sufficient in quantity and quality to maintain the worker in normal health, in elementary comfort, and in an environment suitable to the protection of morality and religion; sufficient provision for the future to bring elementary contentment, and security against sickness, accident, and invalidity; and sufficient opportunities of recreation, social intercourse, education, and church membership to conserve health and strength and to render possible the exercise of higher faculties.

(Ryan, in Beckley 1996: 115)

Any employer who does not pay a living wage is declared unreasonable: "the ethical value of labor is always equivalent to at least a living wage, and the employer is morally bound to give this much remuneration" (Ryan, in Beckley 1996: 119). The only exception is when an employer has an inability to pay; in this case, the state must supplement the worker through public allowances or public policy.

The history of economics is replete with theorists who espoused *need* as one of the cornerstones for wage setting. The concept of a living wage represented not only a normative stance but also an analytical necessity for social reproduction. From this perspective, society has an interest in assuring adequate wages, although the precise definition of adequacy may be politically contested. Nevertheless, many of these writers implicitly or explicitly focus on men's wages as the basis for family support. These economic theories are thus a product of the period in which the male breadwinner family was the hegemonic ideal. Therefore, they reflect gendered assumptions about men's and women's economic contributions.

Wages as a price

Theorists who view wages as a price emphasize the workings of supply and demand in the market. As we have seen, the role of markets in setting wages was acknowledged by proponents of wages as a living as well. Yet they viewed a socially determined acceptable living as a base toward which, however they might fluctuate, wages would (or should) return. For the price theorists surveyed in this section, wages did not reflect socially designated living standards, but rather the value of the work performed. Neoclassical economists came increasingly to view markets as smoothly functioning entities in which all participants would receive a share reflecting their true value. Institutional economists, in contrast, viewed markets as imperfect institutions in which differentials in power and access to information would critically affect distribution. Labor markets were augmented by administrative practices within firms as well as by custom. Both neoclassical and institutional schools, however, shifted the focus of wage theory to the level of the firm.

Markets and the workings of "natural laws"

The emerging school of neoclassical economics in the late nineteenth and early twentieth centuries relied upon highly abstract models that viewed the workings of capitalist markets as the outcome of natural laws. In this context, power differentials were not considered. Markets were theorized as smoothly functioning interactions among freely choosing and fully informed individuals. Workers, in this view, entered the market with full awareness of the value of their labor, and the ability to continue to bargain until this value (Pigou's "fair" wage) was achieved. In the words of John Bates Clark's 1899 text *The Distribution of Wealth*,

the distribution of the income of society is controlled by a natural law, and . . . this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates. However wages may be adjusted by bargains freely made between individual men,

the rates of pay that result from such transactions tend . . . to equal that part of the products of industry which is traceable to labor itself.

(Clark 1965: v)

In this analysis, employers continued to purchase units of labor as long as adding additional units continued to be profitable; workers continued to sell labor units as long as the price received – the wage – seemed to them adequate to compensate for the loss of leisure time. Since workers and employers were theorized as equally possessing solid information about the value of additional units of labor, and since both were assumed to be motivated to maximize their own interests, wages would exactly reflect the marginal value of the final labor unit (which economists termed the marginal revenue product). Employers wouldn't pay more, and workers wouldn't accept less.¹⁰

Neoclassical economists after Clark formalized and expanded upon his model, but the conclusion that market forces resulted in wages equal to the marginal revenue product of labor remained unquestioned, and in fact strengthened. British economist John Hicks, for example, began his 1932 book *The Theory of Wages*,

The theory of the determination of wages in a free market is simply a special case of the general theory of value. Wages are the price of labor; and thus, in the absence of control, they are determined, like all prices, by supply and demand.

(Hicks 1963 [1932]: 1)

One of Hicks' purposes was to argue that collective bargaining by trade unions could not result in a violation of this principle of market wages. If unionized workers managed to raise wages above the going level, employers would respond by decreasing employment (the quantity of labor) to the point where the marginal revenue product of labor equaled the new, higher wage. Thus, nothing workers could do collectively would serve to raise the standard of living of the working class as a whole.¹¹ This conclusion stood in contrast to Clark, who at times argued that collective bargaining was necessary to insure that workers had adequate power vis-à-vis employers to demand their "fair," productivity-based wage (for example, 1913: 292, discussed above).

Neither Clark nor Hicks raised the possibility that different workers might receive different levels of pay for the same or similar work.¹² Both economists wrote at a high level of abstraction, without references to actual economic conditions, but their theoretical examples refer almost always to working men. Neither developed a theory of discrimination. Discrimination would, in fact, violate their understanding of the natural law of markets, since it would imply paying less for some labor (and possibly more for other) than its marginal product, on a systematic rather than accidental basis.

Institutional economics and the era of methodological pluralism

Despite their theoretical orthodoxy, such early neoclassical economists as Pigou and John Bates Clark combined their abstract, market-based models with a willingness to make ethical judgments about the responsibilities of the economy to social well-being. In the period of economic theorizing between the world wars sometimes referred to as "Interwar Pluralism" (Morgan and Rutherford 1998), neoclassical economics, Marxian economics, and the emerging field of institutional economics coexisted and at times collaborated with each other. Morgan and Rutherford comment: "Pluralism meant variety, and that variety was evident in beliefs, in ideology, in methods, and in policy advice. . . . Economists felt at liberty to pursue their own individual combinations of ideas" (1998: 4). This period of pluralism is indicated by the belief in engaged tolerance that was one of the touchstones of the founding of the American Economic Association in 1885 by Ely and others.

Institutional economists tried to "infuse economic theory with a greater realism than is (or was held to be) afforded by reasoning in purely market terms" (McNulty 1984: 153). The original framers of institutionalism included Thorstein Veblen and John R. Commons. The work in this tradition, now called "old" or "original" institutionalism, had much in common with classical political economy. Veblen, for example, rejected the individualism within neoclassical theory, arguing that the economy and economic relationships could not be analyzed as an aggregation of individuals. Economics was regarded as a process of provisioning to meet social as well as individual needs. The original institutionalists were not enamored with abstract, deductive theories, preferring concrete, inductive analyses that referred to real historical conditions (see Commons 1923).

A second generation of institutional scholars who contributed to wage theory in the 1940s and 1950s are sometimes called "neo-institutionalists" because their theories combined marginal analysis and supply and demand with cultural factors to explain wages.¹³ One distinction between neo-institutionalist labor economists and neoclassical labor economists was the former's emphasis on a multiplicity of labor markets and wage rates, defined in relation to each other. Within these wage clusters or bands, relative wages were subject to institutional rigidities and habits linked to custom. Their research on wage setting was accomplished through extensive case studies, such as John T. Dunlop's *Wage Determination Under Trade Unions* (1966 [1944]) and Lloyd Reynolds' *The Structure of Labor Markets* (1971 [1951]). Other labor economists within this research tradition include, for example, Clark Kerr, Richard Lester, and Sumner Slichter.

John Dunlop may well be considered "the premier theorist of all the structuralists" (Gimble 1991: 630). He used the analytical tools of neoclassical theory, including supply and demand functions, to model the economic objectives of trade unions, and indifference curves to evaluate union bargaining power. In an edited volume on *The Theory of Wage Determination*, Dunlop

accepted that "All wage theory is in a sense demand and supply analysis. A wage is a price, and the wage structure is a sub-system of prices" (Dunlop 1964: 14). However, like Clark and Pigou, he also understood that unions were both political and economic institutions and that the government can set minimum wage laws and other wage policies: "In the contemporary period there is need for the formulation of a body of wage analysis suitable to the labor market developments and to the wage-setting institutions of the day, drawing upon the central body of economic analysis" (1964: 13). He acknowledged that nonmarket factors, politics and society, could influence wage policies and wage setting. Firms were also institutions. Their wage-setting decisions were affected by other firms, unions, and the government. In describing his volume on wages, Dunlop warned:

One of the more dangerous habits of mind that economic theory may create is an imperialism that insists that all aspects of behavior, particularly any activity related to markets, can be explained by models with the usual economic variables. . . . A fundamental tenet of the following pages is that modes of behavior that are broader than economic theory contribute materially to the understanding of wage behavior.

(Dunlop 1966: 5)

Dunlop's emphasis was not on a single equilibrium but a cluster of related product and factor markets. To Dunlop (1966), all wage structures – intra-plant, interplant, and inter-industry – contained a number of "key" or "benchmark" rates. Wages of other jobs in a job cluster (a group of occupations, job classes, or work assignments linked together inside a firm by managerial organization and social custom) were pegged to these rates. Key or benchmark pay rates were shaped by the external labor market (outside the firm), and pay of other jobs within the cluster were linked to this rate to help form an internal wage structure (inside the firm). Dunlop's characterization of these processes reflects the prevalence of the job evaluation procedures described in Chapter 7. Furthermore, Dunlop noted, the wages set in the external labor market were, in part, explained by wage contours that were interfirm by industry. Key firms in an industry, linked by similar product markets, similar sources of labor, or custom, would have an array of key wage rates that established a wage contour. The wage contours were then a base, and wages could be further affected by collective bargaining or public policy. Firms within the contour might follow along loosely or closely.

Lloyd Reynolds' major study of a New England factory city, based on thousands of interviews, was clearly influenced by Dunlop's job clusters and wage contours. A "going wage" is actually a band of wage rates, according to Reynolds (1971 [1951]). Once the wage structure was established, Reynolds found there was strong inertia to preserve relativities. Thus, one of the primary contributions of this school of institutionalism was the analysis of wages as prices, rather than simply wages as a price. By rejecting the neoclas-

sical convention of one, uniform equilibrium wage rate, neo-institutionalist economists tried to introduce a more realistic portrayal of wage-setting practices.

In Richard Lester's words: "Actual wage facts seem contrary to what one might expect according to conventional wage theory. Demand and supply do not eliminate gross 'inequities' or gross irrationality. Perfect competition seems to be the exception rather than the rule" (1946b: 152; see also Lester 1946a). Sumner Slichter (1950) compared the structure of wages in the labor market to ordered chaos. Mapping out a structure for labor markets "may lack the elegance of marginal analysis, but it substitutes therefore for the virtue of some approximation to the facts of life" (Phelps 1957: 403). Specifically, customs, norms, internal relativities, inertia, and other economic factors such as technological change and productivity were crucial in explaining the actual practice of wage setting inside firms and the functioning of labor markets. Their scholarship was interdisciplinary and "they perceived labor economics to be inextricably linked to practice, that is, identifying actual labor problems and implementing various remedial policy measures to mitigate them" (Gimble 1991: 628). Institutionalists' attention to the influence of historical practice and the limits of markets foreshadows the feminist analysis of practice theory presented in the next chapter.

Wages and the macro economy

All of the theorists of wages as a price discussed to this point focused on the level of wages for individuals or groups in the economy. This survey would not be complete without a brief mention of John Maynard Keynes' discussion of the relation of wages to the overall (macroeconomic) level of employment. Keynes, one of the most influential economists of the twentieth century, presented his analysis of the causes of unemployment and his case for government intervention in the economy in *The General Theory of Employment, Interest, and Money* (1964 [1936]). Written in a period of worldwide economic depression, this work was instrumental in establishing the theoretical framework of macroeconomics, the study of the economy as a whole. Keynes deviated from neoclassical theory by arguing that capitalist economies could not be counted upon to be self-regulating. Governments had to be actively involved in order to achieve economic stability at full employment.

Neoclassical economics explained entrenched unemployment as the result of real wages (that is, wages measured in actual purchasing power) that were set too high. Market forces, they argued, could correct this problem without government interference. Workers who wanted jobs would respond by offering their services in the market at lower wages; the overall level of wages would be decreased as a result. Employers would respond by hiring more labor, and full employment would be achieved. Keynes challenged this analysis on a number of points. Workers attempted to secure an acceptable wage

through bargaining, a process that was haphazard, uneven, and unequal, with "those in the weakest bargaining position suffer[ing] relatively to the rest" (Keynes 1964 [1936]: 267). Further, they bargained over the money wage (the wage in monetary value), not the real wage. Real wages were determined by the price level and were therefore not within their control. Workers could not influence the level of employment through their wage bargains because they could not affect real wages.

Even if the overall level of money wages could somehow be lowered through "wasteful and disastrous struggle" (Keynes 1964 [1936]: 267), the likely outcome would be a partial lowering of prices because of lower labor costs. There would also be a redistribution of income toward owners of capital and raw materials, and particularly toward the "rentier" class who existed through speculation (in the stock market, for example) rather than entrepreneurship or labor. Keynes labeled this outcome "unjust" (268). Most significantly, Keynes argued that the level of employment was the outcome of the willingness to invest in plant and equipment since more capital necessitated more labor. Willingness to invest was the outcome of the state of investor confidence, which, in turn, was affected by the cost of borrowing (the interest rate), the expected level of future demand for goods and services, and expectations of future profit.

While a fall in money wages, with resulting declines in prices, could cause a decrease in interest rates, in most other respects it was bad for investor confidence. The fall in prices made paying off current debt difficult. The fall in wages increased the likelihood of worker unrest. In addition, if employers expected that wages would continue to fall, they would postpone investment and thus decrease current employment. Finally, the redistribution of income toward rentiers would likely lower consumer demand, since Keynes assumed that rentiers as a class would have a lower "marginal propensity to consume" (or tendency to consume out of additions to their income) than workers. In other words, workers spent their wages while the wealthy saved their income or speculated with it. Advocates for living wages since Keynes' time have frequently stressed this connection among wages, consumption, and employment (see, for example, Chapters 6 and 8).

In sum, Keynes argued that the positive effects of a fall in interest rates could be better achieved through government monetary policy by a central bank. Government policy should stabilize money wages in the short run, and allow them to rise slowly with improvements in productivity over time. Equity as well as effectiveness played a role in Keynes' advocacy of government intervention. He viewed the increased emphasis on speculation and short-term profit in capitalist economies as leading to increased instability and inequality: "The outstanding faults of the economic society in which we live are its failures to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes" (Keynes 1964 [1936]: 372). Full employment could be achieved, he believed, through government

regulation of the economy, not through the painful, unjust, and ultimately ineffective strategy of cutting wages.

Neoclassical hegemony emerges

As a number of authors have documented, this period of pluralism – during which neoclassical and heterodox economists freely debated both theoretical and policy issues – came to an end after World War II (see Rutherford 1997; Backhouse 1998; Goodwin 1998; Boyer and Smith 2001). A growing orthodoxy among neoclassical economists endorsed economic models premised on the primacy of the unregulated market. Neoclassical analyses of wages came to be increasingly reliant on market explanations, providing models of wages as a price unmodified by examination of wages as a living or as a social practice. As noted by Stephen Woodbury, "Too often the tradeoff between the clutter of institutional complexity and the limited applicability of abstraction has been resolved in favor of greater abstraction" (1987: 1782).

The emergent hegemony of simplified models of wages as a price determined by market forces can be seen by examining the textbooks currently used to inculcate and socialize budding economics scholars. The first edition of a top-selling introductory economics textbook by N. Gregory Mankiw, for example, discusses wage determination in a chapter entitled "The Markets for Factors of Production," reflecting the neoclassical approach of theorizing wages as a price determined in the same manner as prices of other inputs into the production process. Mankiw establishes two "facts" about wages in this chapter: "The wage adjusts to balance the supply and demand for labor," and "The wage equals the value of the marginal product of labor" (1997: 389). Subsequent chapters raise issues such as discrimination by race and gender, the efficacy of minimum wages, the effects of collective bargaining, and comparable worth; but all are treated with extreme brevity, and the conclusion in all cases is that free, unregulated markets are the best strategy to correct any temporary inequities.

Most contemporary labor economics textbooks share this preoccupation with neoclassical labor market analysis.¹⁴ Two of the top-selling labor textbooks in the United States are *Modern Labor Economics* by Ronald Ehrenberg and Robert Smith (2000) and *Contemporary Labor Economics* by Campbell McConnell, Stanley Brue, and David Macpherson (1999). The opening pages of the McConnell, Brue, and Macpherson text do acknowledge that labor markets are more complex than product markets because of institutional considerations. However, these institutional departures from market mechanisms are portrayed as regrettable. For example, the authors refer to the "restrictions on [labor] mobility imposed by such institutions as government and unions" (1999: 271, emphasis added). Ehrenberg and Smith use comparable worth as an opportunity to assert the virtues of supply and demand analysis:

When asked to answer why it is, then, that mechanics are paid more than child-care workers, economists tend to answer in terms of market forces: for some reasons, the supply of mechanics must be smaller relative to the demand for them than the supply of child-care workers. Perhaps this reason has to do with working conditions, or perhaps it is more difficult to learn and keep abreast of the skills required of a mechanic, or perhaps occupational crowding increases the supply of child-care workers. *Whatever* the reason, it is argued, wages are the price of labor – and prices play such a critical *practical* role in the allocation of resources that they are best left unregulated.

(Ehrenberg and Smith 2000: 454–5)

Skill differentials as an explanation for relative wages have their roots in human capital theory. Unlike neo-institutional economists who viewed wage differentials as embedded in job characteristics and historical practice, neo-classical economists focused on the individual characteristics of the workers themselves. Individual characteristics that affect productivity were defined as “human capital.” These include years of education, experience and job tenure, training in job-related skills, etc. Different levels of human capital investment and attainment would garner different wages. In the context of the civil rights movement of the late 1950s and early 1960s, human capital acquisition became economists’ rationale for improving education, training, and job access for racial-ethnic minorities and others in poverty (see, for example, Schultz 1961; Becker 1964). Rather than societal discrimination, the problem was perceived as one belonging to individuals.

Later applied to justifying the wage gap between women and men, human capital theory emphasized differences in women’s educational choices, commitment to their careers, and family responsibilities (see, for example, Mincer and Polachek 1974; O’Neill 1985). Because women supposedly made different life choices than men, it was argued that much of their lower pay was for legitimate reasons. However, empirical research has only been able to trace a portion of the wage gap to these factors (England 1982, 1992; Sorensen 1990). As women’s labor force experience becomes closer to men’s, supply-side theories lose even more explanatory power.

Some neoclassical economists are returning to more complex theorizing about wages, with models that allow for the effects of cultural notions of fairness on worker behavior; but these models still rely on market-clearing methodologies. George Akerlof and Janet Yellen (1986), for example, have developed the theory of “efficiency wages,” advancing that employers who pay more than the going wage (or more than the marginal revenue product of labor) are seen as engaging in a gift exchange with their workers, who respond with the gift of increased effort and efficiency. This model, however, still views wages as the market-clearing outcome of individual bargaining between highly informed and equally empowered workers and employers. As such, it is an elaboration of the neoclassical view of wages as a price. The

causality is simply reversed: productivity is, in part, a function of the wage rate rather than the other way around.

Conclusion

Since the late nineteenth century, there has been tension between the two explicit visions of the process of wage determination in capitalist economies. One perspective, embedded in market theory, views wages as impersonal and linked to the characteristics of the work to be done. Contemporary neoclassical economic theory concludes that competitive labor markets produce wage rates linked to productivity. In the absence of meaningful differences between workers’ skills and other characteristics, wages reflect the job that is being performed. However, public policy discussions have frequently invoked an alternative view of wages, more in keeping with the ideas of classical economists. In this view, wages are based upon workers’ needs, that is, a socially defined level of subsistence. These needs are determined in concrete historical circumstances, and therefore reflect power differences between employers and workers as well as macroeconomic conditions. Wages are not only a price, but a living.

Although they are posed as alternative theories, viewing wages as a price need not be inconsistent with viewing wages as a living. As indicated in concrete studies of wage setting by neo-institutionalists, the process of setting wages is complex and historically specific, with both market forces and cultural views about what is owed to workers playing central roles. Further, wages are a social practice. How much one earns is central in determining one’s place in society, and societal norms about behavior and place are historically strongly affected by cultural notions of gender, race-ethnicity, and class. Wages have been used to signify and to enforce accepted places for different social groups; and groups in their struggles to free themselves from social oppression have demanded that their wages be established on a different basis. Feminist theorizing, to which we turn in the next chapter, has been central in understanding such social practices.