What is a Fair Wage? A Critique of the Concept of the Value of Labour-Power

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labour-power is determined like that of other commodities by the labour-time socially and historically necessary for its production. All theories seem to be reluctant to treat labour as a completely different type of entity from other factors of production; perhaps because they are unwilling to use methods other than those appropriate to the study of the traditional economic domain of commodity relations and the exchange of property. In one way or another, unorthodox economists still seem to want to treat labour-power as a commodity like any other.

Whether they are considered as individuals, as in neo-classical economics, or as members of classes, as in Marxist and other radical economics, people enter into economics only as owners. Some own resources, land or capital, but others own only their labour-power, which to them is just a possession, a possession whose owner if they cannot make use of themselves, can rent or sell to someone. Labour-power in economic thought is therefore not the person, nor even an aspect of the person, but a possession of the person; my labour-power is mine rather than me.

It is this that enables the exchange and use of labour-power to be treated like the exchange and use of any other possession, like a piece of machinery, for example. Neo-classical economics makes this most explicit when it talks about the acquisition of skill as human capital, an investment augmenting this possession of labour-power. Other schools of economics do not do this so consistently. In various ways they do recognise a difference between the ability to labour, embodied in a person, and other possessions. But I would argue they do not recognise this enough. They still want labour-power to be subject to a similar type of analysis to other commodities.

In this paper I would like to follow through the implications of taking a view of labour-power as more than just a possession, into the part of economics where it has most pertinence, the analysis of the labour market and wages. I shall do this by considering the problems with looking at labour-power as a "commodity like any other" within Marxian economics, the school which takes most seriously the distinction between the owners of capital and the owners of labour-power and does recognise that labour-power in its use has different characteristics from other commodities. In particular, I shall use an examination of the difference between labour-power and other commodities to argue that wages cannot coherently be seen to be determined in a similar way to other prices, and then to provide the outline of what could constitute a framework for looking at wage determination historically. To do this we have to complement the traditional Marxian analysis of the unique characteristics of labour-power in the capitalist process of production with a recognition that labour-power is both produced and sold under different social relations from other commodities.

In particular, I shall argue that we have to reject a costs of production approach to wage determination based around a customary standard of living, such as that captured by Marx’s conception of the value of labour-
power. This approach, which may have had some purchase in earlier periods, will be shown to be no longer relevant to the conditions of twentieth century capitalism where different notions of justice and fairness in wage negotiations have superseded that of providing for the needs of a man and his family.

The plan of this paper is as follows. In the next section, I shall outline three salient differences between labour-power and other commodities that will figure throughout this paper. In the following section, I shall examine some costs of production (subsistence) theories of wage determination and, in particular how the concept of the value of labour-power as historically and morally determined renders the Marxian version of such theory problematic. The subsequent three sections will provide a critique of this as a theory of wage determination, the first two arguing that the different motives behind and institutions for the production of labour-power negate the usual competitive market mechanism by which costs of production determine the prices of other commodities. The following section explores how differences in the way labour-power is sold and used from other commodities give rise to a different collective social process by which wages could be set at a customary level of subsistence. However, this collective process applies to any notion of a just level of wages, not necessarily one based on workers' standard of living. The following section explores how the notion of what constitutes a fair wage has changed in the case of Australia, where the existence of an arbitration court settling wage levels has rendered the process of wage negotiation more transparent than in other capitalist economies. The paper concludes that the Marxian theory of wage determination based around the value of labour-power must be seen as historically specific, appropriate to the conditions under which it was developed, but not to the conditions of late twentieth century advanced capitalism.

Why labour-power is not a commodity like any other

Within Marxist theory, a commodity is a product that is produced for exchange. So strictly labour-power, the ability to labour, is not a commodity at all for it is not produced; rather it is an attribute of living people. Such people have to be produced, maintained and reproduced, and in that indirect sense, one could say labour-power is produced during those processes too. But even this notion of its production does not allow labour-power to satisfy the above definition of a commodity. For, there are two distinct stages which are necessary to the arrival of labour-power on the market as a commodity:

(i) the (re)production of people and
(ii) the commodification (putting up for sale) of their labour-power.

The first of these stages takes place independently of whether the second will be carried out. This is quite different from what happens with what is normally meant by a "commodity", whose production is dependent on an anticipated sale. Commodities, by definition, are produced only if they are intended for sale.
People, however, are not produced in order to sell their labour-power. Indeed, whether they need or wish to sell their labour-power will depend on a number of circumstances which are unlikely to be constant throughout their lifetime. People are not born to labour and whether they later sell their labour-power remains a historically contingent matter dependent on a range of individual circumstances. The first way in which labour-power differs from other commodities is that it is not produced for sale.

Marx recognised that labour-power was peculiar in the historical circumstances under which it became a commodity, which were different from those of other commodities. Other use-values became commodities as soon as a market developed in which they could be sold. Their owners were willing to part with them simply according to the price they would receive in exchange. But for labour-power, even once a market existed and people were free to dispose of their own labour-power, Marx assumed that they would in general do so only in the absence of any other means of support; that any other means of keeping body and soul together would be explored before wage-labour was resorted to. This meant that labour-power became a commodity only when commodity production (of things) was generalised. For then, people needed money if they were to have access to the means of subsistence (or to the means of production to provide for their own subsistence) and therefore those who had no other means of gaining money had to sell their labour-power. This is the basis of the well-known “double-freedom” of workers: free to dispose of their own labour-power and free of other means of realising their own labour-power. The owners of labour-power cannot make use of it themselves; the only thing they can do with it is to sell it. And those who have nothing to sell but their labour-power will starve if they do not do so.

The basic insight of this, that the conditions under which labour-power is sold as commodity are socially and historically specific, remains valid. However, it needs extending to recognise that the conditions of contemporary capitalism in the developed world are not the same as those at its inception. The idea that everyone who engages in wage-labour is forced into it by the threat of starvation is no longer the case. People engage in wage-labour for all sorts of reasons as well as material necessity, whether this be to better their standard of living or for more intangible reasons relating to self-expression, a social identity or a useful way of spending time. Capital’s monopoly of the means of production is also a monopoly of many of the means of self-realisation and forms of access to social respect.

Further, the imperative to take employment does not apply to each and every member of the working class. Not having access to the means of production, that is, having nothing to sell but one’s labour-power, and actually having to sell one’s labour-power for a wage are not interchangeable definitions of the working class. Wage earning is not the only source of income for people who own no capital; other sources of monetary income exist in modern welfare states as they do in transitional, not fully capitalist economies, and
working for capital may not be an enforced last resort.

More significantly, we need to recognise that although wages are paid to individuals, people live and spend in households. Not all members of households have to sell their labour-power in order that the household as a unit of consumption gains access to money. Further, forms of domestic production take place within households. Although these cannot absolve the household from the need to earn money altogether - indeed domestic work needs inputs purchased on the market - some substitutability is possible between the products of domestic labour and commodities bought on the market, and between taking employment and doing domestic work.

This brings us to a second peculiarity of labour-power as a commodity. It is not “produced” within capitalist firms or even by self-employed artisans, but within households. Households are units of joint consumption and corresponding people “production”, in which the number of members of the household and their relation to the labour market is necessarily variable over a life cycle. Both monetary and domestic inputs are necessary to this process, but there is no exact relation between inputs and the output of labour-power. Households vary not only in their size and consumption requirements but also in their access to income and their domestic skills. Further, households are not profit making institutions, they have a variety of aims and objectives, some shared between members, some held by particular individual members. Without a shared single goal, there can be no social mechanism, analogous to that of competition in the pursuit of profits between capitalist firms, to impose comparability on the conditions of production of labour-power across different households.

The third peculiarity of labour-power as a commodity is that its seller is intimately involved in all stages of its production, exchange and consumption. This follows from the personal nature of labour-power, that it is an embodied attribute of a person, not just a possession. This gives the sellers of labour-power a unique interest in its production process, the exchange transaction and the subsequent use of their commodity. The seller of a normal commodity has no interest at all in how it is subsequently used and is concerned only to maximise the profits made from its sale. This means increasing the price at which it is sold and decreasing the costs of its production by whatever means possible. However, the sellers of labour-power do not necessarily seek to raise the efficiency by which their labour-power is produced, because this production process constitutes the way they spend their lives. More efficient labour-power production may well imply lower levels of consumption or in some other way mean a reduction in their quality of life. Unlike the capitalist sellers of commodities, the sellers of labour-power are themselves produced alongside the commodity they sell. They therefore care about the way in which it is done, not just the costs of doing so.

Another consequence of the personal nature of labour-power is that workers
have quite a different stake in the notion of a fair price for their commodity. Ideas such as a “living wage”, the “rate for the job” or “equal pay for work of equal value” have an emotional and personal content that does not, in general, apply to other commodities. In other words, negotiation over the sale of labour-power is a different process, much more subject to a variety of discursive constructions than negotiation over the sale of other less personal disembodied commodities. This is a central theme to which this paper will return.

Further, workers do not part with their commodity when it is consumed. So, unlike the sellers of other commodities, the sellers of labour-power are not indifferent as to how their commodity is used. Although not necessarily put in this way, this particular consequence of the embodied personal nature of labour-power is the one that is best recognised within Marxian literature. After all, it is because of this that the capitalist process of production is posed as the major site of class struggle, a consequence of the unfortunate fact, from the point of view of capital, that labour-power is an unreliable input because it always comes accompanied by a member of the working class.

In summary then, three significant differences between labour-power and other commodities stand out:

1) labour-power is not produced in order to be sold. The conditions under which it is put up for sale are therefore not reducible to the conditions under which it is produced.

2) labour-power is produced within households, of variable composition, which have aims other than the efficient production and profitable sale of labour-power. There is therefore no one-to-one correspondence between the money received for its sale and the money available and used for its production, nor between the latter and the quantity and quality of labour-power produced.

3) labour-power is an attribute of living people. This means that the terms and conditions of its production, sale and use are of more varied and personal concern to its sellers than just the amount of money received.

In the next section of this paper, I will examine some accounts which have attempted to treat the wage like the price of any other commodity by relating it to the costs of production of labour-power, and show how certain inconsistencies inevitably arise in such accounts. In later sections, I shall show how it is only by recognising these three specific attributes of labour-power that a solution to these inconsistencies can be found, but only at the cost of rejecting costs of production theories of wage determination as universally applicable.

The value of labour-power and a subsistence theory of wages
The classical political economists had a subsistence theory of wages which treated population as an endogenous economic variable, controlled by the laws of supply and demand operating through the wage. So for them, the
supply of workers was similar to the supply of commodities; they both depended on their price. It was not so much the number of children born that was a dependent variable - there were always excess births - but the level of wages determined how many children survived to become workers. Thus death formed an equilibrating mechanism that tended to fix wages at subsistence (or cost of reproduction) levels; when labour supply was plentiful, wages fell and fewer children survived; at times of labour shortage, wages would rise and the working class would be replenished by an increased survival rate of their children.

This mechanism of wage determination can be criticised on a number of grounds. First, it is too slow; the capitalist mode of production could effectively wipe itself out if during a period of excess labour supply wages continued to fall until a lowered survival rate of children fed itself back into a reduced labour supply. The second objection is related to this; wages have, in general, been above bare physical subsistence levels.

It was because of similar objections to the classical model that Marx formulated his alternative model of wage determination, in which wages varied around a subsistence level which should not be seen a bare physical subsistence³. Rather a historical and moral element entered into the determination of this level, which he called the “value of labour-power”. This he saw as determined in a similar way to the values of other commodities:

“The value of labour-power is determined, as in every other commodity, by the labour-time necessary for the production and consequently also the reproduction, of this specific article.....” (Capital Vol. 1, Chapter 6).

However, he recognised a difference in that what was necessary for the production of labour-power was not a purely technical or physical matter:

“In contrast with the case of other commodities, the determination of the value of labour-power contains a historical and moral element. Nevertheless, in a given country at a given period, the average amount of the means of subsistence necessary for the worker is a known datum” (ibid.)

Within Marx’s system, commodities have values which reflect the conditions of their production: the total quantity of socially necessary labour, both direct and indirect, used in their production. In this, then, labour-power was similar to other commodities. The only difference was that the conditions of production of labour-power had to be seen as historically and morally rather than purely technically determined⁴.

The market prices at which other commodities are sold equilibrate around their values (or modified values, values expressed in money terms, modified to allow for different compositions of capital in different industries) because capital moves in and out of the production of different commodities according to their profitability, thus ensuring that commodities exchange at prices determined by their costs of production. Since such commodities are
produced only to be sold, they will no longer be produced if the conditions under which they can be sold compare unfavourably with other commodities. This operation of the “law of value” not only ensures that commodities have equilibrium prices, but that the relation between the prices of different commodities reflects their costs of production.

But these processes do not apply to labour-power because it is not produced for sale. Its production is independent of whether it will be sold. And it is not produced in capitalist firms, with profit their only purpose, but in households whose purposes are many and varied. The equilibrating processes that apply to commodities produced by capitalist firms cannot therefore explain how wages fluctuate around the value of labour-power.

The classical political economists had their explanation, based upon the survival rate of children, to explain why wages should fluctuate around a bare subsistence level. In rejecting this and substituting a notion of a historically determined value of labour-power, Marx could no longer rely on the same mechanism. For if the physical subsistence notion of the wage is rejected, the Malthusian mechanisms by which wages were supposed to be kept at physical subsistence levels would not apply. What then is the mechanism by which this other “subsistence” notion of the wage takes its place?

When Marx rejected the Malthusian notion of a law of population, which lay behind the classical political economists’ mechanism of wage determination, he posed instead an alternative law of accumulation, specific to capitalist production, in which a surplus population was drawn into the labour market according to the cyclical demands of capitalist accumulation. This was supposed to provide an alternative mechanism by which wages could rise and fall according to whether labour-power was in excess supply or demand. In times of intense accumulation, excess demand for labour raises wage levels, so profits fall, accumulation slows (or capitalists innovate and bring in new methods of production whose net effect is to displace labour), lowering the demand for labour-power, replenishing the reserve army of labour and thus lowering wages. As accumulation slows and wages fall, profitability is restored and accumulation begins to increase again, depleting the reserve army and thus allowing wages to rise again.

However, this alternative “law of population” does not provide any reason why wages should equilibrate around subsistence levels or the value of labour-power, however defined. If wages do fall below the value of labour-power in the long run, the working class would not be able to reproduce itself at a standard of living corresponding to the historical and moral standards of the day. However, no individual capital has concerns itself with this problem, nor has the power to rectify it on its own, and Marx explicitly rejects Malthusian mechanisms. In the absence of state intervention or alternative forms of support there is no way to ensure that wages are sufficient to reproduce the working class.
Thus this theory can explain short-term fluctuations in wages, using a different supply and demand mechanism from the Malthusian one Marx rejected. However, this theory is not specific to any particular central level around which wages might fluctuate. Marx’s notion of the value of labour-power as a historically and morally determined level of subsistence could provide this central focus. But the processes of capitalist competition which justify a costs of production approach to the determination of the values and prices of other commodities do not apply to the production of labour-power. To examine further the implications for the concept of the value of labour-power and how wages are determined, we have to take positive account of those peculiar characteristics of labour-power that differentiate it from other commodities.

Labour-power is not produced in order to be sold
We have seen that if any mechanism analogous to the law of value was to apply to wage determination, it cannot work through the process by which labour-power is produced, because labour-power is not produced for sale. The conditions of its production are not the same as the conditions of its sale. Our focus has to shift then from the first of the two stages in the process by which labour-power arrives on the market to the second stage, from the conditions under which people are (re)produced to the conditions under which their labour-power is put up for sale.

If workers had no access other than through the wage to means of subsistence, the question as to when their labour-power becomes commodified would be simple. Because members of the working class have no other assets, they would have to sell their labour-power and would be forced to work at whatever wages they could obtain, making the supply of labour-power inelastic at the lower end. There would be no basis for workers refusing employment at wages below replacement costs; they would simply starve more slowly than if they had no employment. Only the natural limits of the labour supply could force employers to pay higher wages.

If workers cannot refuse to sell their labour-power, then the distinction between the production of people and the commodification of their labour-power has no effect. This distinction begins to have real effects only when alternative forms of support exist which can make the commodification of labour-power into a real issue and thus the supply of labour-power elastic, even below subsistence levels.

Labour-power is produced within households
The one-to-one correspondence between the wage and an individual’s standard of living breaks down primarily because of the existence of households. For any individual living in a household with at least one other potential wage-earner, an issue arises as to how many people’s labour-power needs to be commodified. Therefore the household provides one of the most pervasive antidotes to the necessity of all members of the working class (defined as those with no other property) to sell their labour-power. In order to build a theory of wage determination which allows the distinction
between the production and the commodification of labour-power to have effect, our analysis needs to incorporate more than the notion of an individual worker being reproduced through an individual wage. Wages are paid to individuals, but the household is the unit within which the reproduction of people takes place, both on a daily and generational basis.

Marx, like the classical political economists and the society of which they wrote, tended to identify the household with its male head, thus seeing it as consisting of a male bread-winner plus his dependants, who might complicate the analysis by bringing in supplementary wages. However, this household form has never been universal nor even typical for much of capitalism’s recent history. Household form has varied historically, in general tending to consist of smaller numbers of individuals as capitalism has developed. Further, at any point in time, a variety of household forms exist, so that the correspondence between the wage and what it is required to pay for varies across different households.

A model which takes the value of labour-power to be determined by some customary standard of living (the historically and morally determined subsistence approach) cannot allow for such changes through time and differences across households. At best the average number of wage-earners per household at any point in time can be seen as an exogenous variable that enters into that historical and moral determination of the value of individual labour-powers, but this provides no clue as to how the different contributions are to be assessed. And the same reservations that applied to this as the basis of a theory of wages at the individual level hold a fortiori; there is still no mechanism to ensure that such a historically determined level of subsistence is paid. There are a wide range of possible responses that a household can make to a fall in one member’s wages. Although the support of other members of their family may enable some workers to refuse employment at wages below what is considered acceptable, for others the needs of their families tie them even more firmly into wage-labour and the necessity to sell their labour-power at whatever wage they can obtain.

So, although the household may provide some sort of cushion for its members’ living standards, recognising its existence does not solve the problem of how workers can ensure that their wages, individually or collectively, are adequate to maintain a customary standard of living for their household. In the absence of alternative forms of support, the theory is still missing any mechanism by which any particular level of wages, determined by its contribution to a customary standard of living, could be imposed on capital.

However, both in economies before they are fully capitalist and in the modern welfare states of advanced capitalism, alternative forms of support do exist and may provide an uneven floor below which certain people’s wages will not fall. Among the factors that enter into whether people take employment, and under what conditions, are the alternatives available to
them, and this in turn affects what capital needs to offer workers in order to get the chance of exploiting them.

These alternatives will be different for different people. For some people, domestic responsibilities will limit the conditions under which employment is worth taking. Women tied in hours and location to school timetables will have fewer alternative forms of employment than men without family responsibilities; this may explain the poor pay and working conditions many women face particularly for part-time work. However, a floor will still exist, to be explained by a combination of such factors as the costs of providing transport and child care to make employment possible, the nature of the work, and the opportunities forgone for directly improving the household’s well-being in the home. These factors may provide an economic explanation of why not all women take such jobs and instead rely financially on the earnings of other members of their household.

For other workers, the state may provide a floor below which wages will not fall. Modern welfare states have been categorised by the extent to which their forms of income maintenance de-commodify labour-power, that is enable people not to take employment (Esping Andersen, 1990). In so far, as they do so, state benefits then provide a minimum below which the wages paid to potential recipients will not in general fall. However, state benefits do not constrain all wages in this way, because not all workers have the same entitlement to benefits. Despite variations across different regimes, all means-tested benefits are to some extent based on the notion of the family household as a single income sharing and consuming unit, which restricts the benefits available to anyone living in a household in which other members have an income from employment. This places individuals in unequal positions with respect to claims upon the state and may even recreate the (typically male) head of household as the only person to whom benefits are paid, further weakening the position of other members of the household in the labour market.

In so far as welfare regimes do this, they are retaining a notion that is largely out of date, that of a two-parent, single-earner household in which the male breadwinner is to provide for all the financial needs of the household from a wage packet adequate to that task. However, this assumption has been diluted by various forms of redistributive state benefits and taxation developed to temper the inadequacy of the wage in providing an adequate standard of living across different types of households, such as child benefit in the UK and the single parent pension in Australia. Some benefits, such as Family Credit (UK) and Family Allowance Supplement (Australia), are paid to bring the income of any household which includes children up to a certain minimum dependent on its size and composition. Such benefits erode the assumption that the wage should be the sole means by which families are maintained and people reproduced. In absolving both employer and worker from responsibility of ensuring that particular wages are adequate to the particular needs of particular families, the state is both
registering a shift in the notion of what wages are supposed to do and accepting some responsibility for the financial provision for families. In doing so, it is relieving the labour market as a whole from the vagaries of household size and the need to provide for any particular standard of living, with the explicitly stated aim of allowing wages to fall.

Thus although state benefits may provide some mechanism whereby a certain minimal standard of living is achieved by working class households, they do not have any straightforward effect on wage levels. This is because individual wage earners have different entitlements to benefits according the type of households they come from. Secondly, many benefits are now being paid in forms which do not provide any floor to wage levels. Both these effects arise from the fact that benefits are paid and labour-power is produced in households of variable form, while wages are earned by individuals; so wage levels are not directly translatable into the standard of living they provide.

But further, we cannot take household form as an exogenous variable, a given element to enter into the calculation of how average wages meet average household needs. Household form is itself a variable which changes and needs to be explained, and in such an explanation wages would be a relevant factor. For example, the growth of single person and non-related adult households in modern times is at least in part a result of increased earnings of young people enabling them to leave their parental home. In a different direction, the post World War II growth of dual income families in many western economies can be seen as a result of male wages not keeping up with working class expectations of their living standards, as well as changes in the way in which women are expected to contribute to that standard of living.

So wage levels cannot be seen as the outcome of spreading a customary standard of living over a given household form, the number and type of wage earners in each household determining how much each member needs to earn. Once household form is seen as non-uniform, historically variable and endogenously determined at least in part by wage levels, the notion that a historically determined level of subsistence determines wage levels begins to look very shaky indeed. Without considering the third peculiarity of labour-power, that it is an attribute of living people, we have not found any argument for the existence of a standard of any sort, be it the value of labour-power or any other, around which wage levels might fluctuate. It is to this peculiarity of labour-power that we now turn,

Labour-power is an attribute of living people
So far the discussion of wages has been framed entirely within an individualist framework as soon as workers leave the household. We have talked as though wage negotiations take the form of an offer by employers to purchase a known and predictable amount of labour-power at a particular wage, which individual workers then do or do not accept on the basis of whether
it is worthwhile for them to part with their labour power under those terms. However, wage negotiations are rarely like that and workers do not part with their labour-power when they sell it. For the third specific characteristic of labour-power is that it comes with a worker attached; the seller of labour-power is also the worker and the sale is not fully completed until the work has been done. In the course of their work, workers will develop ideas about how much they should be paid and the effort they wish to put into their work as well as the contacts to enable them to negotiate from a position of greater strength than they would hold as an individual.

The prevalence of collective bargaining has been used as another argument for the notion that wages are set by expectations of a customary standard of living, because workers would strike if wages fell below such a level. Further those expectations are themselves set collectively and workers' organisations have a role to play in this. Rosa Luxemburg recognised this well:

"The main function of trade unions is that, by raising the needs of workers, by raising their customary standards above the physical minimum for existence, they create a cultural and social subsistence minimum, ie, a particular cultural standard of living of the working-class, below which wages cannot fall without immediately provoking united struggle and resistance. The great economic significance of Social Democracy particularly lies in the fact that, by arousing the broad masses of workers intellectually and politically, it raises their cultural level and therewith their economic needs. When, for example, it becomes habitual for workers to subscribe to a newspaper or to buy pamphlets, the worker's economic standard of living rises correspondingly, and so, consequently, do his wages" (quoted in Mandel, 1978: 50/1; see also Green, 1991 and Rowthorn, 1990)

But although introducing the notion of collective action by workers does provide a mechanism by which supply can be limited and thus workers can affect the wages they receive, it does not get over some of the objections raised above. In particular, it remains the case that there is no direct correspondence between wages and living standards. If workers collectively strike because they are not receiving the standard of living to which they feel they are entitled, the living standards that they are experiencing will be very different across that collectivity. Why should one worker be prepared to strike at one standard of living and another at quite a different standard, just because they both correspond to the same level of wages?

It could be argued that workers are not striking for a particular standard of living for themselves and their individual family; rather they allow for individual variation in standards of living due to personal circumstances. The notion of a customary standard of living is then an abstraction used as a negotiating strategy, a rallying cry around which workers can unite even though the effects of the wages that are supposed to produce that standard of living would in fact be quite different across different workers' households.
If that is the case, then the essence of what is going on is a claim for justice and fairness, where a fair wage is seen as one which allows a "normal" family to maintain an acceptable standard of living. So built into this notion of a fair wage is an historically constructed structure of expectations and norms of family life, which can be held by workers who live in quite different circumstances themselves. Workers position their own wage-earning in relation to such a structure of norms; a woman may not expect to earn what a man could, even if the family she has to support is just as needy as the more conventional family he brings his wages home to. These norms and expectations of family life and the positions workers adopt in relation to them are clearly changeable and changing; they form a culturally constructed backdrop against which workers assess the justice of what is being offered to them.

This relates back to the point made earlier, that workers have more at stake in selling their labour-power than simply maximising the price at which it is sold. The success workers have at collective bargaining, compared with the sellers of other commodities, suggests that more is being mobilised than simply the desire to achieve the best price. In what other market can hundreds, or even thousands, of owners of a similar commodity successfully combine to refuse to sell unless an agreed price be paid? I would suggest that what is being mobilised here is the sense of justice and self-esteem of the worker, and that these provide powerful mobilising pegs on which to hang a wages strategy. Note that I am not suggesting necessarily that this is a conscious tactic by anyone involved in negotiations; rather that a sense of injustice can crystallise strategy around a particular point on a scale in a way that the desire for simply a better price for the commodity one is selling cannot, since better prices can always be bettered. There are a few other examples one can cite of this process in different markets, the successful operation of OPEC as a cartel, for example, dates from the aftermath of the 1973 war in the Middle East and a desire to rectify perceived injustices done to the Arab nations by the West's support of Israel.

If this thesis is correct, then whether workers are mobilised by defending their living standards or something else is not really the point. Not only do expectations concerning standards of living and the norms of family life vary historically, so also can the way the wage is perceived and the meaning attributed to it. This means the notion of what constitutes a fair wage is not fixed and will itself have a history. Although capitalist employers may always have been after the same thing, a wage that is conducive to maximum profits, there is no one notion of fairness and justice that workers have always brought to the negotiating table. Workers' aims in wage negotiations and the consequent meaning of a just settlement have varied across history and circumstance. For example, when skilled male workers in the nineteenth century fought for a wage sufficient to keep a wife and children, they were calling on a notion of justice which consisted of a man's right to provide for his family. For late twentieth century skilled occupations, particularly those
in which many women are involved, the rhetoric of the family wage has very little purchase. Today one might argue that it is the notion of a fair rate for the job that has greater mobilising power, that can provide the point of discontinuity around which workers can mobilise.

The observation that workers may put a variable amount of effort into their work has also been used, in a similar manner to the threat of collective strike action, as the basis of a theory of how wage levels are established. Under certain conditions, workers may work harder than others. Where workers consider their wages fair and just, they may work harder than when they have a grievance about wages. Knowing this, employers may decide to pay their workers an “efficiency wage”, an above market-clearing wage paid by employers in the hope that it will encourage, bribe or trap workers into working harder than they would at lower wages. (Akerlof, 1984; Weisskopf, Bowles and Gordon, 1983)

The incentive to pay such an efficiency wage, if it exists, is just one result of the unpredictability of labour power from the point of view of its capitalist purchaser. Labour-power does not only need to be bought, it needs to be put to work and in conditions of antagonistic class relations the outcome of this is unknown. Because labour-power is not separable from the person who sells it, it is quite possible, unlike for other commodities, that the terms and conditions of the wage contract will affect what can be done with the commodity purchased. This again can be used as an argument as to why a customary standard of living is relevant to wages. For if wages fall below that, workers will work less well. Capitalists who know this will be prepared to pay for the quality of labour power they require.

But again the same objections as above apply. Because workers come from all sorts of different households, there is no one-to-one correspondence between their wage and their standard of living, so a single customary standard of living loses its significance. Since one is no longer talking about the effects of a bare subsistence wage on the physical ability of workers, it is now a question of a level of wages that does not trigger resentment and promotes an attitude to work that employers desire. In promoting such attitudes, notions of just treatment will be important, but they may not be centred on workers’ standard of living. Other notions of justice and fairness may be just as powerful and have just as important effects on the way workers work. There is again no reason to assume only one unchangeable notion of justice and fairness.

To illustrate how the notions of justice and a fair wage that mobilise workers have changed historically, the next section will look at how the rhetoric of wage negotiations has shifted in Australia. There the existence of an arbitration court through which wages are negotiated has led to a vast array of documentary evidence about attitudes to wages not available in other capitalist economies.
The shifting rhetoric of wage negotiations in Australia

In Australia, since 1907, wages have been negotiated in front of a federal arbitration court where both employers and trade unions present their cases for the levels at which wages in particular industries and occupations should be set. In doing so, both sides explicitly argue for what they see as reasonable and just criteria for fixing wages. This is a different system of wage negotiation than that conducted in any other capitalist economy. However, it has been convincingly argued that, because of market pressures, the outcome is not significantly different in the long-run from what it would be under more conventional forms of collective bargaining (Bennett, 1984).

The existence of the arbitration court in Australia means there is a vast array of documentary evidence about attitudes to wages not available in other capitalist economies. Of course, arguments put before the court may reflect more what is expected to be successful than the true beliefs of each side. However, the very fact that such arguments are chosen as tactics must give some indication of prevailing norms of justice at the time.

In November 1907, Mr Justice Higgins, who had just been appointed President of the Australian Commonwealth Arbitration Tribunal enunciated the principle that a “fair and reasonable wage” was one which provided for the needs of a family of five. This was to cover “the normal needs of the average employee regarded as a human being in a civilised society”. Of course some workers might get more than this, but

"it is advisable to make the demarcation as clear and definite as possible between that part of the wages which is for mere living, and that part of the wages which is due to skill, or to monopoly or to other considerations. Unless great multitudes of people are to be irretrievably injured in themselves and their families, unless society is to be perpetually in industrial unrest, it is necessary to keep this living wage as a thing sacrosanct beyond the reach of bargaining" (Broken Hill Case, Commonwealth Arbitration Report, 1909: 32, quoted in Deery and Plowman, 1991: 353)

So from then onwards, the wage had two components, an element negotiated on the basis of skill, based on arguments about wage relativities between different trades, and a basic “living wage” which was to be a minimum, based on need, below which no man’s wage should fall. However, as feminists have pointed out, although the “living wage” was an progressive and humanitarian concept in that it tied wages to workers’ needs rather than to profits, it was flawed from the outset (Ryan and Conlon, 1975; Kirkby, 1989). This was for two reasons: first, that it was not in fact adequate to support many families, for the familiar reason that families do not come in standard sizes. And second, that it did not apply to women even if they did have a family to support.

Instead in 1912, Higgins ruled that women workers’ needs were different from those of men:

"I fixed the minimum in 1907 as 7s. per day by finding the sum which would meet the normal needs of an average employee, one of his normal
needs being the need for domestic life. He has a wife and children, he is under obligation - even a legal obligation - to maintain them. How is such a minimum applicable to the case of a woman...? She is not, unless perhaps in very exceptional circumstance, under any such obligation. The minimum cannot be based on exceptional circumstances.” (Commonwealth Arbitration Report, 1912: 71 quoted in Gill, 1992: 7)

Two points are worth noting about this judgement; first that need is the only criterion referred to for each sex, but second that it is “normal” not individual need that is to be taken into account. Indeed, it was explicitly ruled out as unreasonable to expect an employer to pay according to individual need:

“The employer cannot be told to pay a particular employee more because she happens to have parents and brothers and sisters dependent on her; nor can he pay her less, because she has a legacy from her grandparents, or because she boards and lodges free with her parents, and merely wants some money for dress” (ibid)

As Gill points out, it is notable that this category of exceptions does not mention mothers who are sole parents with dependent children to support.

This illustrates my contention that it is the rhetoric of need rather than its actuality that is at issue here. The original level of the male “living wage” was fixed by unscientifically collected evidence about the costs of food and housing supplemented by a rough and ready addition for other needs. No evidence was brought to court to support the contention that the “normal” needs of women were less than those of men. A normal family was invoked as a standard which seems to have been accepted, perhaps unwillingly, even by those vast numbers of people whose families did not conform to that norm. The minimum wage for women was set at 75% of the male wage, subsequently reduced in 1919 to 54%, where it remained until women started to enter male jobs during the Second World War.

In the depression of the 1930s, the notion that the basic wage should be determined by need alone came into question. An additional criterion, explicitly ruled out by Higgins in his 1907 judgement, was allowed, that of employers’ capacity to pay. This was interpreted in terms of the economy’s ability to sustain the existing rate, to be measured by a subjective mix of such economic indicators as productivity, level of unemployment, investment and the balance of payments. In 1932 the Court reduced the basic wage by 10% on the grounds that:

“to fix a basic wage at an amount which would procure an average standard of living for wage earners such as the Court would gladly see prevailing, would be worse than futile if the nation’s income is not large enough to maintain the prescribed standard”

and by 1934 it was already being argued the criterion of capacity to pay should supersede the previous needs based criterion of the living wage:
In other words, a fair wage was the highest that could be afforded by the economy. Implicitly this is a notion of justice which allows and assumes that workers have a stake in the economy itself. Wages are no longer physically determined costs on industry, rather workers can be seen as having to take the rough with the smooth, with both a duty to take a cut in their standard of living when profits fell and a right at other times to a share in the fruits of prosperity. True to this conception of wage justice, in 1937, the basic wage was raised by a one-off, non-indexed “prosperity loading” of between 4 and 6 shillings because of improved economic conditions.

The entry of women into men’s higher paying jobs in the Second World War also brought the needs based system of wage determination into question. If women were only paid women’s wages for doing men’s jobs, the status of these jobs would be undermined when men returned from the war. Thus there clearly was a notion at the time that the wage should be seen as appropriate to the status and value of a particular occupation. But this was seen directly to undermine the principle, more precious to male trade unionists at least, of a wage based on needs, which would be directly flouted if women were to be paid men’s wages for doing a male job.

The Women’s Employment Board, which was set up to resolve these problems rejected need as the basis for wage determination in favour of a notion of productivity and recommended that women be paid according to their relative productivity compared with men. Again, no statistical evidence was used to assess this and women were paid an amount varying between 70% and 100% of the male wage in each industry, usually around 90% (Curthoys, 1988: 132). Again, even though a significant shift had been made in the basis on which wage justice was being argued, it was a rhetoric of relative productivity determining the just wage, rather than actual facts, which were used; women were expected to be a bit less productive than men and were paid accordingly.

In the years following the Second World War, the trade union movement fought successfully to re-establish the concept of the family wage. However, women’s organisations argued a different position, arguing for equal pay by rejecting the notion of a family wage6. They argued that existing female wages were not enough to live on and that not all women had male wage earners to depend on. Some argued that the wage should cover a spouse, but all agreed that it should not cover children, arguing that the state should support children thorough family allowances. They saw female dependency as the main problem and the low level of female wages as its cause. This
would be removed by a transfer of income from men to women through a reconceptualisation of the basis on which wages were negotiated.

Although this remained within a needs based framework of arguing for wages, it proposed a revolutionary change in that need would be applied at the individual level and thus to women as well as men. Further, in the argument about the evils of female dependency, the wider implications of wage negotiations were recognised and the concept of need broadened from a purely material one to encompass a notion of wages providing for independence and autonomy.

However, this argument was not accepted by the trade unions, which considered that to argue for state support for children was a dangerous tactic, which would be used to keep male wages down. This argument was supported by the court in 1950 when Justice Foster rejected equal pay on the grounds that men supporting families did need more than single women. A decision in 1952 reaffirmed that female wages were to be kept lower than men’s, but at 75% of men’s wages rather than returning to the pre-war level of 54%. Employers had been shown capable of paying 75% and so it could remain. Thus the principle of the employers’ capacity to pay was explicitly reaffirmed, along with that increasingly difficult one to apply, the needs of the family.

It was not until 1969 that progress was made towards equal pay. In the meantime, the employers had shifted the ground on which they wanted wages negotiated arguing that instead of a basic wage topped up with extra payments for particular occupations, the total wage should be determined on the basis of skill and capacity to pay. By this idea then, wage justice would consist of a rate for the job appropriate to both the skills workers brought to the job and the profits received by the employer from their work. This approach was adopted in principle in 1966 and left the way open to demands for equal pay.

In 1969, when Bob Hawke, the future prime minister of Australia, was the chief union advocate, his case for equal pay explicitly rejected, on the grounds of economic justice, the use of a needs element in fixing wages. Equal pay was therefore to be seen as just and also necessary; necessary because the economy could no longer do without women. Also in the boom conditions of the time, men did not seem to fear that their wages would be cut to provide for equal pay, rather equal pay would protect men’s jobs from being undercut by women. Thus there was in this a complete shift in the notion of what constituted a fair wage; a notion that referred not at all to how the wage was to be spent, but only to what was done to earn it. This notion implied that whoever put in the work, deserved the remuneration appropriate to the particular skills and value of the job being done. It was only three years later that the criterion of “equal pay for equal work” was replaced by the much more useful “equal pay for work of equal value” and resulted in
women’s wages climbing significantly as a proportion of men’s through the 1970s.

This story is an Australian one, but I do not think, despite its particular institutional setting, that it is unique. It is a story about a shift in economic rhetoric, concerning the meaning of the wage and conceptions of fairness, which has had real effects on how wages are actually negotiated. We have seen that the earlier needs based conception of a fair wage, took account of average rather than individual need, and made specific assumptions about the structure of the average household. In this notion of a fair wage, labour-power was implicitly conceived of as similar to other inputs, with its sellers having no specific claims on the prosperity of the economy through their personal involvement in the production process; they just required to be paid for the costs of production of the input they supplied.

However, in the depression difficulties with paying a wage fixed in real terms brought employers’ capacity to pay into the conception of a just wage. Workers were then no longer seen as simply the suppliers of labour-power, but as economic actors with responsibilities for and rights to a share in the fortunes of the economy. Although this conception entered first of all at the level of the economy as a whole, it became transformed into one conceived more at the level of the individual enterprise and individual workers. A conception of justice depending on equal pay for work of equal value implies that each individual worker’s pay should be based on her or his individual contribution and productivity. This liberal conception of equality, corresponding to an absence of discrimination on immaterial grounds, ultimately reduces to an idea of individual assessment and individual rights to the fruits of one’s own labour.

The question remains as to why this shift from a needs based conception of economic justice, through that of employers’ capacity to pay, to one based on individual productivity and work performed, has occurred. It is difficult to sort out cause and effect in this. Certainly two factors must have been changes in family structure and rising living standards. As traditional patterns of household formation have broken down, family structure has become increasingly diverse. At the same time more and more women, both from single and dual earner households, have entered the work force, increasing the variation in whom the wage is needed to support. Rising standards of living allow for further variation; when need is not absolute, people have more room to make a variety of different choices as to who should take employment. Further, as increasing numbers of women enter the workforce, male trade unionists find that when they argue for higher wages for women, they are now talking about the part of their own household incomes brought in by wives and daughters, instead of upholding the traditional view that only those women left outside the family wage structure would take employment. Rather than women’s employment being perceived as a threat to male wages and thus family incomes, women workers are being accepted as important contributors to family incomes.
whose wages therefore need to be supported by trade unions arguing for equal pay.

But surely another influence must be that of employers. We saw how in Australia it was the employers who paved the way for equal pay by arguing against a needs based conception of wages and for one based on prosperity, skill and productivity. For, of course, skill and productivity is what concerns employers, for their interest is in profitability, that is ensuring that they get the most that they can from the wages they pay their workforce. A notion of just pay reflecting the value of work to the employer is exactly what is needed for this.

States too have actively promoted this change, and not only in Australia, where the state has always been so deeply involved in wage negotiations. As employers themselves, governments have tried (not always successfully) to promote the notion that public sector pay should be linked to productivity. Redistributive policies, where they potentially fill some of the gap between the wages brought into a household and its assessed needs, contribute to the notion that wages are not the only source of family income and can therefore be determined by other criteria. And finally equal pay legislation, in most advanced capitalist economies, has promoted the idea that a just wage is one related to the outcome of work not the personal circumstances of the person who performs it.

**Conclusion**

I have argued in this paper that labour-power is a different sort of commodity from others in three respects:

1) labour-power is not produced in order to be sold
2) labour-power is produced within households
3) labour-power is an attribute of living people

These differences mean that a cost of production approach, appropriate to the determination of prices of commodities which are produced for sale by profit-oriented firms, is inadequate to the determination of wages. Even when the cost of production of labour-power is interpreted as a customary standard of living or the “historically and morally determined level of subsistence” of the Marxian concept of the value of labour-power, there are good reasons to reject such a formulation as the basis of a theory of wage levels, because there is no way in which the sellers of labour-power acting alone can ensure that wages meet such a standard.

But the sellers of labour-power are also workers and it is through their involvement in the process of production that workers have the power to ensure that their wages are set at levels considered fair and just. They hold this power both through their inevitable involvement in the process by which labour-power purchased becomes labour performed and through their ability to combine with other workers in trade unions. Because of these factors, a wage settlement perceived as just by workers may well result in a better outcome from the point of view of employers than paying the lowest
possible wage. Trade unions frequently depend for mobilising workers on a notion of a fair or just wage; workers paid such wages may well be more productive than those who feel badly treated, whereas workers offered less than what is considered just may strike. The notion of a fair wage needs therefore to be a crucial component of any theory of how wage levels are set.

This however does not necessarily reinstate the value of labour-power, or a customary level of subsistence, as the basis of which a fair wage is assessed. Rather the argument applies to any conception of fairness or justice used in wage bargaining and, as this paper has shown for the particularly explicit type of wage negotiations conducted in Australia, these conceptions have changed historically.

Marx and the classical economists may have been right in their day to see wages as fluctuating around a norm corresponding to a socially determined level of subsistence, which could, by analogy with the costs of production of other commodities, be called the “value of labour-power”. However, this theory relied on an historically specific conception of what was meant by a just wage. In the subsequent development of capitalism, other conceptions of fairness and economic justice have arisen, rendering the notion of the value of labour-power anachronistic as least as the basis of a theory of wage determination.

Rather, we have to see wages as being negotiated around a conception of economic justice which is historically variable; a fair wage through history has come to mean a number of different things. In broad terms, there has been a shift from a family needs based conception of a fair wage to one based on individual productivity. This historical shift was analysed for the case of Australia where special institutional arrangements have rendered the norms used in wage setting more explicit than in other capitalist economies. There, an initial focus on workers’ needs was appropriate to a period in which workers were seen as inputs to rather than participants in the economy. As employers’ capacity to pay became the issue, workers were seen as having a right and a duty to share in the fortunes of the economy. Today, the focus is more on what individual workers do for their individual employers and economic justice consists of the equal treatment of individuals irrespective of their needs and family responsibilities. I suggested that among the factors that may have been influential in this historical shift were changing family structures, employers’ aims and state policies; factors which should be relevant in most other capitalist economies too.
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