Chapter V

ON WAGES

The determination of wages in the systems of both Ricardo and Malthus is based on their respective theories of value. Ricardo holds that labour like all other commodities has a natural price and a market price. The natural price of labour is that which is necessary to enable the labourers as a group to continue in existence and to bring up a sufficient number of children to maintain a constant supply. In the words of Ricardo:

"The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution." 1

Thus, expressed in terms of commodities the natural price of labour or natural wage is the quantity of food, clothing etc. necessary for the production of labour and the maintenance of its supply at a stationary level; expressed in money, it is the wage required to enable the labourers to purchase this quantity of goods at current market prices.

According to Ricardo the natural wage does not consist of minimum necessaries only but also includes moderate comforts or those comforts which habits and customs render necessaries. In other words, natural wage is not the minimum upon which labourers

could live and keep up their numbers but the minimum upon which they will do so. Nor is the natural wage absolutely rigid; it varies with time and is different in different countries. Ricardo says:

"The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessaries, and conveniences become essential to him from habit, which that money will purchase."²

"It is not to be understood that the natural price of labour, estimated even in food and necessaries, is absolutely fixed and constant. It varies at different times in the same country, and very materially differs in different countries. It essentially depends on the habits and the customs of people.

2. Ibid., p. 93.
An English labourer would consider his wages under their natural rate, and too scanty to support a family, if they enabled him to purchase no other food than potatoes, and to live in no better habitation than a mud cabin; yet these moderate demands of nature are often deemed sufficient in countries where "man's life is cheap", and his wants easily satisfied. Many of the conveniences now enjoyed in an English cottage, would have been thought luxuries at an earlier period of our history. a

The market price of labour is the price which is actually paid for labour and is decided by the proportion of supply to demand. The market price of labour or the market wage has always a tendency to conform to the natural rate. Whenever the market wage rate exceeds the natural wage rate the labourers will reproduce themselves at a very rapid rate and the consequent increase in the supply of labour will drive the market

3. Ibid., pp. 96-97.
wage rate down to the natural wage rate. When on the other hand, the market wage rate is lower than the natural wage rate there will be malnutrition and starvation and the resultant decrease in the labour supply would increase the market wage rate to the natural wage rate. Ricardo describes this position as follows:

"However much the market price of labour may deviate from its natural price, it has, like commodities, a tendency to conform to it. It is when the market price of labour exceeds its natural price that the condition of the labourer is flourishing and happy, that he has it in his power to command a greater proportion of the necessaries and enjoyments of life, and therefore to rear a healthy and numerous family. When, however, by the encouragement which high wages give to the increase of population, the number of labourers is increased wages again fall to their natural price, and indeed from a reaction sometimes fall below it. When the
market price of labour is below its natural price, the condition of the labourers is most wretched: then poverty deprives them of those comforts which custom renders absolute necessaries. It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price, and that the labourer will have the moderate comforts which the natural rate of wages will afford.  

According to Ricardo, independent of the variations in the value of money (which he assumes not to operate) there are two causes that affect the wages of labour; first, the supply and demand of labourers, and second, the price of the commodities on which the wages of labour are expended. Ricardo believes that in the 'natural advance of society' wages will have a tendency to fall as far as they are regulated by the first cause for "the supply of labourers will continue to increase at the same rate, whilst the demand for them will increase at a slower rate." But since with the advance of society, on

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4. Ibid., p. 94.
account of the operation of the law of diminishing returns, the prices of necessaries will be constantly rising, the money wages of labour will have to increase. Ricardo holds that the net result of the operation of the two causes will be that though the money wages of labour will increase yet labour would be 'really worse paid' or, in other words, although the real wages of labour will fall, yet the money wages of labour increase. Ricardo then concludes:

".....the same cause which raises rent, namely, the increasing difficulty of providing an additional quantity of food with the same proportional quantity of labour, will also raise wages; and therefore if money be of an unvarying value, both rent and wages will have a tendency to rise with the progress of wealth and population." 5

Malthus does not accept Ricardo's explanation of wages. As early as November 23, 1814 he wrote to Ricardo:

"Nothing can be more certain, for instance than that the state of the land is the

* "While the price of corn rises 10 percent, wages will always rise less than 10 percent." Works and Correspondence of Ricardo, Vol. I p. 102

5. Ibid., p. 102.
main cause of high wages, or the most scanty wages, according as it is fertile and abundant, or comparatively poor and scarce. But still it would be most incorrect to say that the state of the land regulates wages; because instances there are numerous where land is fertile and abundant, and yet wages are very low..... The reason of this is, that tho' fertile land and a great plenty of it are the main cause of the high wages of labour, yet they are not the sole or regulating cause.  

In his Principles of Political Economy Malthus remarks:

"Adam Smith's position, that the money price of labour is regulated by the demand for labour, and the price of necessaries, is practically quite true; but it is of importance to keep constantly in view the mode in which the price of necessaries affects the price of labour."  

Malthus indeed does not deny the influence of the prices of necessaries on wages but he contends that this factor is important only because it affects the supply of labour. According to Malthus since the prices of necessaries are also determined by the principle of demand and supply, there is only one principle that regulates wages and it is the principle of demand and supply. He says:

"The principle of demand and supply is the paramount regulator of the prices of labour as well as commodities, not only temporarily but permanently, and the costs of production affect these prices only as they are the necessary condition of the permanent supply of labour, or of commodities."

Malthus criticises Ricardo for holding that market wages tend to conform to a natural rate that keeps the supply of labour constant. He believes that labour supply will cease to grow only in a stationary state and not in a growing economy. Since pending the arrival of stationary state, which may take hundreds of years, there is more or less continuous increase

8. Ibid., p. 224.
of capital and population it is wrong to say that there is a tendency for wages to settle at a rate that does not allow an increase in population. Malthus says:

"Mr. Ricardo has defined the natural price of labour to be "that price which is necessary to enable the labourers one with another to subsist, and to perpetuate their race, without either increase or diminution." This price I should really be disposed to call a most unnatural price; because in a natural state of things, that is, without great impediments to the progress of wealth and population, such a price could not generally occur for hundreds of years. But if this price be really rare, and, in an ordinary state of things, at so great a distance in point of time, it must evidently lead to great errors to consider the market prices of labour as only temporary deviations above and below that fixed price to which they will very soon return." 9

Malthus himself would define the natural or necessary price of labour as that price, which in the actual circumstances of the society, is necessary to occasion an average supply of labourers, sufficient to meet the average demand. Market price to Malthus means the actual price in the market, which from temporary causes is sometimes above, and sometimes below, what is necessary to supply the average demand. Malthus believes that the two important determinants of the level of wages are, the rate at which the demand for labour is increasing and, the living habits of the laboring classes. Since both of these causes are subject to variation, the level of wages is also subject to change. He says:

"The condition of the labouring classes of the society must evidently depend partly upon the rate at which the resources of the country and the demand for labour are increasing, and partly on the habits of the people in respect to their food, clothing, and lodging. If the habits of the people were to remain fixed, the power of marrying early, and of supporting a large family, would depend upon the rate at which the resources of the
country and the demand for labour were increasing. And if the re-
sources of the country were to re-
main fixed, the comforts of the lower
classes of society would depend upon
their habits, or the amount of those
necessaries and conveniences without
which they would not consent to keep
up their numbers. It rarely happens,
however, that either of them remain
fixed for any great length of time."  

The question arises what are the causes which make the
habits of the people different at different times and places. 
Malthus admits that this question involves so many consider-
ations that 'a satisfactory solution of it is hardly to be ex-
pected.' According to him much depends upon climate and soil,
but moral causes, such as 'despotism, oppression and ignorance'
on the one hand, and 'civil and political liberty and education'
on the other lead to differences in the amounts on which the

10. Ibid., p. 248.
labourer will be ready to bring up a family. Besides, the habits of the people are also affected by the amount of wages actually received.

Since it is the forces of supply and demand that determine the wages of labour it follows that the happiness of the labouring classes lies in their own hands. Malthus lays a great stress on the proposition that labourers can themselves better their conditions if they choose to exercise the efforts of prudence and put a check to their numbers. He says:

"It is of the utmost importance always to bear in mind that a great command over the necessaries of life may be effected in two ways, either by rapidly increasing resources, or by the prudential habits of the labouring classes; and that as rapidly increasing resources are neither in the power of the poor to effect, nor can in the nature of things be permanent, the great resource of the labouring classes for their happiness must be in those prudential habits which, if properly exercised, are capable of securing to labourer a fair proportion of

11. Ibid., p. 249-251.
the necessaries and conveniences of life
from the earliest stage to the latest." 12

Elsewhere Malthus says:

"The rich have neither the power, nor
can it be expected that should all
have the will, to keep the market under-
stocked with labour. Yet every effort
to ameliorate the lot of the poor gen-
erally that has not this tendency, is
perfectly futile and childish..... the
knowledge and and prudence of the poor
themselves, are absolutely the only means
by which any general improvement in their
condition can be effected. They are
really the arbiters of their own des-
tiny; and what others can do for them,
is like the dust of the balance compared
with what they can do for themselves.
These truths are so important to the
happiness of the great mass of society,
that every opportunity should be taken
of repeating them." 13

12. Ibid., p. 291.
13. Ibid., p. 306.
Ricardo fully agrees with Malthus's emphasis upon the prudential habits on the part of labourers. Soon after the publication of Malthus's Principles of Political Economy he wrote to Malthus:

"I am particularly pleased with your observations on the state of the poor—it cannot be too often stated to them that the most effectual remedy for the inadequacy of their wages is in their own hands." 14

In his Notes on Malthus while commenting upon the relevant passage in Malthus's Principles of Political Economy Ricardo writes:

"The whole of this is excellent and cannot be too often and too clearly inculcated on the minds of the labouring classes." 15

This does not, of course, mean that Ricardo had no independent opinion about the important role of labourers in the determination of wages. He had already allowed sufficient importance to this factor when he said:

"It is a truth which admits not a doubt, that the comforts and well-being of the

15. Works and Correspondence of Ricardo, Vol. II p. 262.
poor cannot be permanently secured without some regard on their part, or some effort on the part of the legislature, to regulate the increase of their numbers, and to render less frequent among them early and improvement marriages."  

In fact Ricardo classifies economies into two types: one, new settlements which are rich in fertile land, and second, long settled countries where fertile land is already cultivated and where on account of the operation of the law of diminishing returns there is crowded population with all its attendant evils. He suggests that in the case of new settlements the best way of removing the evil of poverty is a rapid accumulation of capital. He also believes that in case of these countries, if refined technology is used, it is very likely that capital will increase faster than population and therefore wages will have a tendency to increase. In the case of old countries, however, where production cannot keep pace with population the remedy is population control. Ricardo says:

"With a population pressing against the means of subsistence, the only remedies

17. Ibid., p. 98.
are either a reduction of people, or
a more rapid accumulation of capital.
In rich countries, where all the fer-
tile land is already cultivated, the
latter remedy is neither very practi-
cable nor very desirable because its
effect would be, if pushed very far,
to render all classes equally poor.
But in poor countries, where there are
abundant means of production in store,
from fertile land not yet brought into
cultivation, it is the only safe and
efficacious means of removing the evil.\textsuperscript{18}

\textsuperscript{18} Ibid., pp. 99-100.