Lecture 1: Wages Theories

Learning Objectives

· To further understand the concept of wages
· To understand different Theory of wages
· To know the relation between Labor and Wages

1. Basic concepts:

1.1.Wages Definition:

Wages in the widest sense mean any economic compensation paid by the employer under some contrast to his workers for the services rendered by them. Wages, therefore, include family allowance, relief pay, financial support and other benefits.

But, in the narrower Sense wages are the price paid for the services of labor in the process of production and include only the performance wages or wages proper. They are composed of two parts - the basic wage and other allowances.

The basic wage is the remuneration, by way of basic salary and allowances, which is paid or payable to an employee in terms of his contract of employment for the work done by him.

Allowances, on the other hand, are paid in addition to the basic wage to maintain the value of basic wages over a period of time. Such allowances include holiday pay, overtime pay, bonus and social security benefits. These are usually not included in the definition of wages.

1.2.The Natural Wage

The classical economics generally used the term "natural wage" to indicate an amount of money. But the objective of theory wages is to determine the 'natural' level of real wage, to which a certain money wage must correspond once the prices of goods consumed by the workers are determined.

1.3. The Demand for Labor

The influence of contemporary economic theory may lead to the belief that when they spoke of the demand for labor the classical authors were referring (though in an imperfect and approximate way) to a functional relationship which, as in today's dominant marginalist theory, links the demand for labor with the real wage rate.

However, by the 'demand for labor' the classical authors meant a single quantity (the number of working hours or workers required by capitalist entrepreneurs), rather than a function or demand curve' representing the different equilibrium levels of employment corresponding to different levels of the real wage, as is the case in contemporary economic theory.

1.4.The Supply of labor

In current economic language the supply of labor (or labor force, in statistical surveys) is the number of workers (or hours of work) offered at the current wage. Statistically, that number comprises employed people plus those who are out of employment but actively seeking work. Current economic theory regards the labor supply as a variable which, for a given population, depends on the wage level according to a specific quantitative relation (function), which in general is held to be increasing. Hence, for a given population, the number of persons prepared to work (or the number of hours workers are prepared to do) is expected to increase, with an increase in real wages, at least within a certain interval of the values that wages may take.

For the classical economists, on the other hand, the labor supply is identified with the population belonging to those social classes which can get the income they need to live only by selling their labor. It is obvious, and the classical economists certainly

knew it, that there is always a part of that population which is not able to work – for example very young children, invalids, the elderly.

1.5.Unemployment:

The unemployed, as currently defined, are people out of work and actively seeking it. The possibility of unemployment was contemplated by the classical economists, but it was often indicated by other terms on circumlocutions: the unemployed were referred to as 'idle' (as a opposed to 'industrious', but without the moral connotations now implicit in these words), or as people who 'want employment'. They included not only people actually seeking jobs and underemployed laborers wanting to work more days or hours, but also those who had become vagrants, beggars or criminals. They also included sections of the population such as women or children, who might or might not be actively seeking jobs but who would readily offer their services whenever the opportunity arose.

2. Theories of Wages

A. Traditional Theories of Wage:

1. Adam Smith's Contributions:

The Scottish economist and philosopher Adam Smith, in *The Wealth of Nations* (1776), failed to propose a definitive theory of wages, but he anticipated several theories that were developed by others. Smith thought that wages were determined in the marketplace through the law of supply and demand. Workers and employers would naturally follow their own self-interest; labor would be attracted to the jobs where labor was needed most, and the resulting employment conditions would ultimately benefit the whole of society.

Although Smith discussed many elements central to employment, he gave no precise analysis of the supply of and demand for labor, nor did he weave them into a consistent theoretical pattern. He did, however, prefigure important developments in modern theory by arguing that the quality of worker skill was the central determinant of economic progress. Moreover, he noted that workers would need to be compensated by increased wages if they were to bear the cost of acquiring new skills—an assumption that still applies in contemporary human-capital theory. Smith also believed that in the case of an advancing nation, the wage level would have to be higher than the subsistence level in order to spur population growth, because more people would be needed to fill the extra jobs created by the expanding economy.

2. The Subsistence Theory of Wages:

The subsistence theory of wages was first formulated by **Physiocratic School of French economists** of 18th century. Further, this theory was developed and improved upon by the German economists**. Lasalle** styled it as the **Iron Law of Wages** or the **Brazen Law of Wages**. Ricardo and Malthus also contributed to the theory of wages. **Karl Marx** made it the basis of his theory of exploitation.

Assumptions:

According to Ricardo, this theory is based on the following two assumptions:

a. Population increases at a faster rate.

b. Food production is subject to the law of diminishing returns.

According to this theory, wages of a worker in the long run are determined at that level of wages which is just sufficient to meet the necessaries of life. This level is called the subsistence level. The classical economists called it the neutral level of wages. In this way, the pro-pounders of the theory believed in the bargaining power of the workers. In such a situation, trade unions play an important role in increasing wages.

Wages of labor are equal to subsistence level in the long ran. If wages fall below this level, workers would starve. It will reduce their supply. Thus, the wage rate will rise to the subsistence level. On the other hand, if wages tend to rise above the subsistence level, workers would be encouraged to bear more children which will increase the supply of workers, which in turn will bring wages down to the subsistence level.

It can be shown with the help of the following figure:

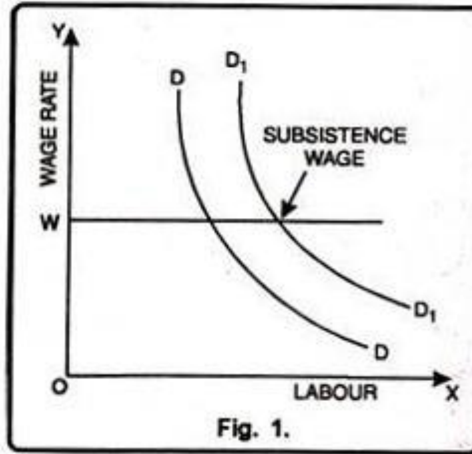

Fig. 1.

In Fig. 1 demand and supply of labor has been measured on OX-axis and wage rate on OY-axis. OW is the subsistence level of wages. At OW wage rate supply of labor is perfectly elastic. Since, supply of labor is perfectly elastic, wage rate neither can fall below OW nor can increase above the level of OW. Although demand increases from DD to D1D1 yet the wage rate remains the same at OW.

Criticism:
Following are the main defects of the subsistence theory of wages:
 One Sided Theory:
This theory examines the wage determination from the side of supply and ignores the demand side.
 Pessimistic:
Subsistence theory of wages is highly pessimistic for the working class. It presents a dark picture of the future of the society.
 Long Period:
This theory is based on the assumption of long run. It does not explain the determination of wages at a particular period of time.
 No Historical Evidence:
This theory has been criticized on the grounds that it has not been correct in conclusions. The case of western countries is different from the conclusions of this theory.
 No Difference in Wages:
This theory explains that all the workers get equal wages. As we know, the workers differ in their productivity, and hence, the difference in their wages is natural.

3. **Marginal Productivity Theory of Wages:**

Marginal productivity theory of wages is an important theory of wages. This theory was first of all propounded by Thunnen. Later on, economists like Wicksteed, Walras, J.B Clark etc. modified the theory. The marginal productivity theory states that labor is paid according to his contribution in production. A producer hires the services of labor because he possesses the ability to contribute in production. If worker contributes more to production he is paid more wages and if he contributes less, w ages also will be low.
"Marginal productivity of labor refers to change in total revenue by putting one more laborers, keeping all the other factors constant." Dooley "As a result of competition between employees for labor and between workers for employment, a wage-rate is determined that is equal to the marginal productivity of the labor-force, the employers as a whole are willing to employ." Prof. S.E. Thomas "The marginal productivity theory contends that in equilibrium each laborer will be rewarded in accordance with its marginal productivity".
Assumptions:
The marginal productivity theory of wages is based on certain assumptions as stated below:
1. All laborers are equally efficient.
2. Constant technology
3. Perfect competition prevails both in factor and product markets.
4. There is full employment in the economy.
5. Law of diminishing marginal returns apply on the marginal productivity of labor.
6. Labor is perfectly mobile.

Analysis of the Theory:
Under the conditions of perfect competition, wages are determined by the value of marginal product of labor. Marginal product of labor in any industry refers to the amount by which output increases when one more labor is employed.
Value of marginal product of labor is the price which the marginal product can fetch in the market. Under the conditions of perfect competition, an employer will go on employing more laborers but, due to the operation of the law of diminishing returns,

the marginal product of labor will diminish until a point comes when the value of the increase in the product will be equal to the wages paid to that laborer.

Why Marginal Productivity Theory is Most Satisfactory:

Here we may compare the Marginal Productivity Theory with the earlier classical theories.

The Marginal Productivity theory is an improvement over the earlier theories in the following ways:

(i) This theory is not as rigid as the subsistence level theory and other classical theories.

(ii) It takes into consideration the demand for labor by the employers and the supply of labor, although in an indirect form.

(iii) It shows why there are differences in wage rate. Wages according to this theory vary because of marginal productivity differences of different workers.

(iv) It gives importance to the productivity of labor.

Criticism:

The marginal productivity theory of wages also suffers from certain defects as:

1. Unrealistic Assumptions:

The foremost defect of the theory is that it is based on unrealistic assumptions like perfect competition, homogeneous character of labor etc. All these assumptions do not prevail in the real world.

2. Incomplete:

Again, this theory fails to take into account that labor is also a function of wages. Less productivity may be the effect of low wages which adversely affects the efficiency of labor and in turn reduces the labor productivity. Thus, the theory is incomplete in all respects.

3. Static Theory:

Lord J.M Keynes criticized the theory as it is based on static conditions. It is only true when there occurs no changes in the economy. But in real practice it cannot be so. Change is the law of nature, though it may come gradually.

4. One Sided:

The marginal productivity theory is one sided. It takes into consideration only the demand side and ignores the supply side.

5. Fails to determine Wages:

This theory only guides the employer to employ workers up to the level where their marginal productivity equals price. But, it does not tell how the wages are determined.

6. Long Period:

The theory concerns itself with the long run. It explains that wages will be equal to MRP and ARP in the long run but, the long run like tomorrow never comes. In other words, it does not deal with the short-run.

4. **Wage Fund Theory:**

Introduced by John Stuart Mill (1891), this theory assumes that there is a fixed wages fund (Lump Sum) which is distributed equally among all the laborers. In other words:

Wage level per worker = Wage Fund (a fixed sum in the short-run)/ No. of Laborers

Thus, if the fund is large, wages would be high, if it is small wages would be reduced to the subsistence level. The demand for labor and the wages that could be paid are determined by the size of the fund.

J.S. Mill said that wages mainly depend upon the demand and supply of labor or the proportion between population and capital available. The amount of Wages Fund is fixed.

Wages cannot be increased without decreasing the number of workers and vice versa. It is the wages fund which determines the demand for labor. However, the supply of labor cannot be changed at a given time. But if the supply of labor increases along with increase in population, the average wages will go down. Therefore, in order to increase the average wages, firstly, the wages fund should be enlarged, secondly, the number of workers asking for employment should be reduced.

Analysis of the Theory

➢➢ It puts more emphasis on demand of labor (wages fund) compared to the supply of labor

➢➢ It attempts to study wage level in the short-term. It tried to take into account longrun too by suggesting wage fund might grow or shrink in the long run but that was not the focal point of the theory.

➢➢ The theory generalizes about the general level of wages for an entire economic system, however it can be applied to an employer.

➢➢ Just like subsistence theory, this theory also attempts to answer the question of wage level and not of wage structure and differentials. The reasons may be that they were developed during the time when economies, even of America and Europe were agrarian.

➢➢ In the short run, many organizations, particularly those in the public sector, do allocate a fixed run for payment of wages. However, critics argue that the assumption of a fixed sun itself is wrong as the sum can be increased. Even J.S.Mill also accepted this criticism.

Criticism Against the Theory

➢➢ The wage fund theory is criticized on the following grounds:

➢➢ It is not clear from where the wages fund will come

➢➢ No emphasis has been given to the efficiency of workers and productive capacity of firms

➢➢ This theory is unscientific as wages fund is created first and wages are determined later on. But, in practice, the reverse is true.

➢➢ This theory does not explain differences in wages at different levels and in different regions

➢➢ This theory is more applicable to pure agrarian society where the gap between two crops is too big. Now as labor has moved to manufacturing and there is a move to pay for performance, it is possible to pay workers out of the surplus of current operations also.

5. **Residual Claimant Theory:**

This theory was propounded by Walker. According to this theory, rent and interest are contractual payments. After deducting rent and interest from total product, the employer will deduct his profits. What remains after deducting rent, interest and profits is wages. It is possible to increase wages by increasing the total product by improving the efficiency of the workers.

This theory has several defects:

1. This theory assumes that the share of landlords, capitalists and entrepreneurs are fixed and it is absolutely wrong.
2. It is not the worker who is the residual claimant but the entrepreneur.
3. It does not explain the influence of trade union in wage determination.
4. The supply side of labor has been totally ignored by the theory.

6. **Marxian surplus-value theory**

This theory owes its development to Karl Marx (1818-1883). Karl Marx accepted Ricardo's labor theory of value (that the value of a product is based on the quantity of

labor that went into producing it), but he subscribed to a subsistence theory of wages for a different reason than that given by the classical economists. In Marx's estimation, it was not the pressure of population that drove wages to the subsistence level but rather the existence of large numbers of unemployed workers. Marx blamed unemployment on capitalists. He renewed Ricardo's belief that the exchange value of any product was determined by the hours of labor necessary to create it. Furthermore, Marx held that, in capitalism, labor was merely a commodity: in exchange for work, a laborer would receive a subsistence wage. Marx speculated, however, that the owner of capital could force the worker to spend more time on the job than was necessary for earning this subsistence income, and the excess product—or surplus value—thus created would be claimed by the owner. This argument was eventually disproved, and the labor theory of value and the subsistence theory of wages were also found to be invalid. Without them, the surplus-value theory collapsed.

7. **Supply and Demand Theory of Wages**

Logically robust and the least refuted, this theory, postulates that if there are few jobs and the supply of workers is high, wages will fall, conversely, if there are lots of jobs and a shortage of workers, wages will rise. In the long run wages will be leveled at a point where demand and supply is equated.

At the central core of labor economics is wage determination because, over time the changes in the structure and level of wages determine the efficient allocation of labor and the maintenance of demand and supply of labor in the marketplace. The starting point of the theoretical construct in this context is the theory of perfect competition which makes some key assumptions:

a. Employers driven by profits seek to maximize utility or satisfaction.

b. Both employers and workers have perfect information about job opportunities and wages in the market.

c. The skills and performance potentials of all workers are identical, and the jobs offered in the market are identical in terms of working conditions and non-wage attributes.

d. In the labor market, there are infinite employers on the demand side and infinite number of workers on the supply side. These large numbers of workers and employers result in negligible influence of either in the marketplace.

e. There are no institutional barriers preventing the mobility of workers from one job to another. The supply demand model, in labor economics considering these assumptions take the form as illustrated below.

The forces of demand and supply determine the rate of pay for a particular type of labor in a specific labor market. This model predicts that wages in the long run will be determined by the equalisation of the demand and supply forces. The wages so determined will the equilibrium wage. If the prevailing wage rate is higher than the equilibrium wage there will be excess supply of labor and the resulting competition will push down the wage to the equilibrium wage. If the prevailing wage is lower than the equilibrium wage the excess demand for labor and the competiton for workers will raise the wage to the equilibrium wage.

In spite of the assumptions of perfect competition being restrictive and unrealistic this model is important as it highlights the role of market forces in the process of wage determination. The imperfections in the real world cause the wage rate to deviate from the theoretical ideal of perfect competition. The market forces in the real world do not determine a unique wage rate for each

type of job but establish a range with an upper limit and a lower limit. The employer has some discretion within this range. The employers or the firm cannot pay more than the upper limit as the profits will be drastically reduced. Paying wage below the lower limit will not attract workers at all. An area of indeterminacy is established between the lower limit and the upper limit within which the firm can formulate its own wage policy. As firms have some discretion over the wage rate they pay, it is possible to find a distribution of firms in the labor market. These firms in terms of wage payment can be high wage firms, and low ways firms and the remainder somewhere in middle. These placements are called contours. The determinants of a firm in being a particular contour are the profitability of the firm and its ability to pay. These are additional determinants, the primacy being the level established by supply and demand.

B. Bargaining Theories

Bargaining theory has received attention not only in economics but also in social psychology, sociology, political science, applied mathematics, and industrial relations. John Davidson propounded this theory.

The bargaining theory of wages holds that wages, hours, and working conditions are determined by the relative bargaining strength of the parties to the agreement. Smith hinted at such a theory when he noted that employers had greater bargaining strength than employees. Employers were in a better position to unify their opposition to employee demands, and employers were also able to withstand the loss of income for a longer period than could the employees. This idea was developed to a considerable extent by John Davidson, who proposed in The Bargain Theory of Wages (1898) that the determination of wages is an extremely complicated process involving numerous influences that interact to establish the relative bargaining strength of the parties.

This theory argues that no one factor or single combination of factors determines wages and that no one rate of pay necessarily prevails. Instead, there is a range of rates, any of which may exist simultaneously. The upper limit of the range represents the rate beyond which the employer refuses to hire certain workers. This rate can be influenced by many factors, including the productivity of the workers, the competitive situation, the size of the investment, and the employer's estimate of future business conditions. The lower limit of the range defines the rate below which the workers will not offer their services to the employer. Influences on this rate include minimum wage legislation, the workers' standard of living, their appraisal of the employment situation, and their knowledge of rates paid to others. Neither the upper nor the lower limit is fixed, and either may move upward or downward. The rate or rates within the range are determined by relative bargaining power.

The bargaining theory is very attractive to labor organizations, for, contrary to the subsistence and wages-fund theories, it provides a very cogent reason for the existence of unions: simply put, the bargaining strength of a union is much greater than that of individuals. It should be observed, however, that historically laborers were capable of improving their situations without the help of labor organizations. This indicates that factors other than the relative bargaining strength of the parties must have been at work. Although the bargaining theory can explain wage rates in short-run situations (such as the existence of certain wage differentials), over the long run it has failed to explain the changes that are observed in the average levels of wages.

C. Purchasing-power theory

The purchasing-power theory of wages concerns the relation between wages and employment and the business cycle. It is not a theory of wage determination but rather a theory of the influence spending has (through consumption and investment) on economic activity. The theory gained prominence during the Great Depression of the 1930s, when it became apparent that lowering wages might not increase employment as previously had been assumed. In General Theory of Employment, Interest, and Money(1936), English economist John Maynard Keynes argued that (1) depressional unemployment could not be explained by frictions in the labor market that interrupted the economy's movement toward full-employment equilibrium and (2) the assumption that "all other things remained equal" presented a special case that had no real application to the existing situation. Keynes related changes in employment to changes in consumption and investment, and he pointed out that economic equilibrium could exist with less than full employment.

The theory is based on the assumption that changes in wages will have a significant effect on consumption because wages make up such a large percentage of the national income. It is therefore assumed that a decline in wages will reduce consumption and that this in turn will reduce demand for goods and services, causing the demand for labor to fall.

The actual outcomes would depend upon several considerations, particularly those that involve prices (or other cost-of-living considerations). If wages fall more rapidly than prices, labor's real wages will be drastically reduced, consumption will fall, and unemployment will rise—unless total spending is maintained by increased investment, usually in the form of government spending. Then again, entrepreneurs may look upon the lower wage costs (as they relate to prices) as an encouraging sign toward greater profits, in which case they may increase their investments and employ more people at the lower rates, thus maintaining or even increasing total spending and employment. If employers look upon the falling wages and prices as an indication of further declines, however, they may contract their investments or do no more than maintain them. In this case, total spending and employment will decline.

Conversely, if wages fall less rapidly than prices, labor's real wages will increase, and consumption may rise. If investment is at least maintained, total spending in terms of constant dollars will increase, thus improving employment. If entrepreneurs look upon the shrinking profit margin as a danger signal, however, they may reduce their investments, and, if the result is a reduction in total spending, employment will fall. If wages and prices fall the same amount, there should be no change in consumption and investment, and, in that case, employment will remain unchanged.

It should be noted that the purchasing-power theory involves psychological and other subjective considerations as well as those that may be measured more objectively. Whether it can be used effectively to predict or control the business cycle depends upon political as well as economic factors, because government expenditures are a part of total spending, taxes may affect private spending, etc. The applicability of the theory is to the whole economy rather than to the individual firm.

D. Investment Theory of Wages

This theory has developed by Gilelman for the replacement of marginal productivity theory. Whereas marginal productivity theory focuses on the output of labor, investment theory concentrates on labor inputs, another side of the same coin. The theory proposes that the productivity of an individual employee is a function of his personal attributes with which his labor is combined. Workers attributes include values, personality, and physical abilities.

In a sense, however, these attributes are reflected in education, training, and experience. Highly motivated, emotionally mature and energetic individuals are essentially investments in productivity. The larger the investments possessed by workers, the wider the geographic scope of the labor market in which he has a potential to participate. So he is highly mobile. Wages are related to mobility potential.

Analysis of the Theory

- ➢ It focuses both on the supply of and the demand for labor. It emphasizes worker's investment in productivity
- ➢ Its emphasis is on short-run
- ➢ It emphasizes the micro aspect
- ➢ It tries to answer wage structure as well as the wage level
- ➢ If wages are assumed to be a return on investment, logically one would assume that the larger the investment, the higher the wage. However, in practice, this will not be true always s employees seek a number of other satisfaction from job, income being only one of them.

Further, the wage decisions are influenced by the organization's policy in regard to job design, employment and lay-off as these factors affect profitability of the organization and its ability to pay. Generally stated, employment (demand for labor) is a function primarily of the demand for output and only several times removed it is a function of wages as wages affect costs, costs –prices – demand- employment. Despite its limitations, the theory can be tested empirically and has great value for the practitioners.

E. Behavioral theories

Many behavioral scientists - notably industrial psychologists and sociologists like Marsh and Simon, Robert Dubin, Eliot Jacques have presented their views or wages and salaries, on the basis of research studies and action programmes conducted by them. Briefly such theories are:

1. The Employee's Acceptance of a Wage Level

This type of thinking takes into consideration the factors, which may induce an employee to stay on with a company. The size and prestige of the company, the power of the union, the wages and benefits that the employee receives in proportion to the contribution made by him - all have their impact.

2. The Internal Wage Structure

Social norms, traditions, customs prevalent in the organization and psychological pressures on the management, the prestige attached to certain jobs in terms of social status, the need to maintain internal consistency in wages at the higher levels, the ratio of the maximum and minimum wage differentials, and the norms of span of control, and demand for specialized labor all affect the internal wage structure of an organization.

3. Wage and Salaries and Motivators

Money often is looked upon as means of fulfilling the most basic needs of man. Food, clothing, shelter, transportation, insurance, pension plans, education and other physical maintenance and security factors are made available through the purchasing power provided by monetary income - wages and salaries.

Merit increases, bonuses based on performance, and other forms of monetary recognition for achievement are genuine motivators. However, basic pay, cost of living increases, and other wage increases unrelated to an individual's own productivity typically may fall into maintenance category.

F. Human-capital theory

A particular application of marginalist analysis (a refinement of marginal-productivity theory) became known as human-capital theory. It has since become a dominant means of understanding how wages are determined. It holds that earnings in the labor market depend upon the employees' information and skills. The idea that workers embody information and skills that contribute to the production process goes back at least to Adam Smith. It builds on the recognition that families make a major contribution to the acquisition of skills. Quantitative research during the 1950s and '60s revealed that aggregate growth in output had outpaced aggregate growth in the standard inputs of land, labor, and capital. Economists who explored this phenomenon suggested that growth in aggregate knowledge and skills in the workforce, especially those conveyed in formal education, might account for this discrepancy. In the early 1960s the American economist Theodore W. Schultz coined the term human capital to refer to this stock of productive knowledge and skills possessed by workers.

The theory of human capital was shaped largely by Gary S. Becker, an American student of Schultz who treated human capital as the outcome of an investment process. Because the acquisition of productive knowledge is costly (e.g., students pay direct costs and forego opportunities to earn wages), Becker concluded that rational actors will make such investments only if the expected stream of future benefits exceeds the short-term costs associated with acquiring the skills. Such investments therefore affect one's "age-earnings profile," the trajectory of earnings over one's lifetime. Those who leave school early, for example, earn market wages for more years on average than those who take advantage of extended schooling, but those in the latter group typically earn higher wages over their lifetimes. Under certain conditions, however, the total lifetime earnings of the two groups can be the same, even though the highly educated tend to earn higher wages when they work.

Investments in human capital depend upon the costs of acquiring the skills and the returns that are expected from the investment. Families can influence these variables. Wealthier families, for example, can lower the costs of human-capital acquisition for their children by subsidizing their education and training costs. In addition, wealthier and better-educated parents can shape the tastes and preferences of their children by instilling in them a high regard for education and a desire to perform well in school. This translates into a higher rate of return on knowledge and skills relative to that of children from less-advantaged families. Thus, parents and guardians play an essential role in creating advantages for their children by encouraging them to acquire substantial stocks of human capital. Ultimately, it is human capital which has value in labor markets.

Becker introduced the important distinction between "general" human capital (which is valued by all potential employers) and "firm-specific" human capital (which involves skills and knowledge that have productive value in only one particular company). Formal education produces general human capital, while on-the-job training usually produces both types. To understand investments in human capital by employees and employers, one must pay attention to the different incentives involved. In all cases, employers are loathe to provide general skills, because employees can use them in other firms. Conversely, employees are less inclined to invest in firm-specific

human capital without substantial job security or reimbursement. These issues lie at the heart of many contemporary analyses of employment relations.

References:

1. Arul, P. G. (2003), Compensation Management, Pondicherry University, Department of International Business, MBA – HRM, Private Circulation.
2. SARI, R;, (2000), WAGE DETERMINATION MODEL: THEORY AND EVIDENCE, Submitted to the Graduate Faculty of Texas Tech University in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy.
3. COMPENSATION MANAGEMENT, Lesson 9: INTRODUCTION TO THE THEORY OF WAGES, Rai Technology University, India.
4. Stirati, A. (1994), The Theory of Wages in Classical Economics: A Study of Adam Smith, David Ricardo and Their Contemporaries, Published by Edward Elgar company, England
5. Ethical Trading Initiative, Wages and Purchasing Theories, Source: http://www.britannica.com/EBchecked/topic/633855/wage-and-salary (Jan 2014).