Real Wages in 19th and 20th Century Europe
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7.1 Historical Change in the Institutional Determinants of Wages

Professor Mandel's paper is particularly interesting because of the way it moves through time and across countries to pick up examples of different types of pressures upon real wages. But I do not agree with the theory of wage determination which underlies the paper. My comments will thus comprise two parts: a criticism of the wage theory underlying Mandel's arguments, and some reflections on the change in institutional determinants of wages from the 1930's onwards.

Criticism of the Wage Theory Underlying Mandel's paper

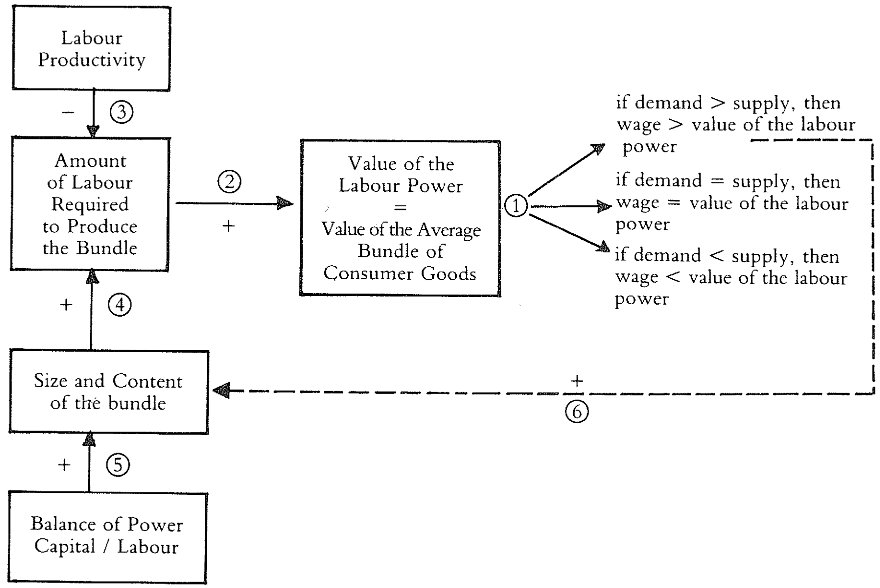
I have tried to represent the Marxist wage theory by a diagram (Figure 7.1). This diagram comprises, from right to left, five points which I will deal with one by one. My aim is to denounce the circular nature of the argument.

Professor Mandel argues as follows. Labour power is a commodity. As with all commodities, the price of labour power — the wage — fluctuates around the value of labour power. Fluctuations are determined by the law of supply and demand; if labour supply is higher than the demand, wages will fall below the value of labour power; inversely, if the demand is higher than the supply, wages will rise (point 1 of Figure 7.1). Supply and demand determine the fluctuations, the basic trend being given by the value of labour power. What determines this value? It is the value of the average bundle of consumer goods. As shown in point 2 of Figure 7.1, the value of labour power is measured by the quantity of work required to produce the consumer goods.

Now, let us move up the diagram. Point 3 shows that an increased productivity decreases the amount of work necessary to produce the bundle, and thus reduces the value of labour power. The value of labour power goes down as productivity goes up.

Up to now what can we conclude? If the bundle of consumer goods does not change, and if labour productivity rises, we should observe a steady

Figure 7.1 Marxist Wage Theory



decrease of wages through time. At this stage, the only way to explain a stability or an increase of wages in the long term would be a permanent excess of demand on the labour market. This is shown by the upper arrow of point 1 on Figure 7.1. Of course, Mandel does not claim that this is the historical explanation of the tendency for stable or increasing real wages. On the contrary, he reminds us of the existence of a reserve army of labour, of the most frequent excess supply of labour. This excess supply of labour should bring wages below the value of labour power, along the downward arrow of point 1. The fall in wages should thus be even greater than the fall in the value of labour power! If we follow the logic of the argument, the question thus becomes: why don't we observe a permanent lowering of wages?

We must look for the reply in points 4 and 5 of Figure 7.1. The answer given by Mandel is that the value of labour power does not go down over time because the average bundle of consumer goods is not constant. This is point 4 on the diagram.

What does the expansion in the bundle depend on? Mandel tells us (p. 188) that 'there is no automatic correlation between either economic growth, level of industrialisation or level of productivity on the one hand, and, on the other hand, the integration of new needs into the workers' consumption pattern . . .' The expansion of the bundle of consumer goods depends on the balance of power between capital and labour. This is point 5 of Figure 7.1.

The conclusion Mandel draws from these five points may be summarised as follows (p. 190): the long-term evolution of wages depends upon demand and supply of labour, inflected by the balance of power between capital and labour. This conclusion — from which the value of labour power has disappeared — short-circuits, and thus denounces, the circular nature of the argument. Figure 7.1 implicitly contains a dotted arrow which closes it.

This is my argument. Let us imagine a situation in which the demand for labour increases faster than the supply. This was the case in several European countries in the second half of the nineteenth century. The diagram shows that the wage level should stabilise above the value of labour. In other words, the workers at the end of the nineteenth century earned enough to be able to expand their average bundle of consumer goods. If the difference between the wage and the value of labour holds a long time — and Mandel clearly indicates from the outset of his paper that the difference can be long term — the new expanded bundle of consumer goods will become the norm. If such is the case, we cannot deny a link between the wage and the size of the bundle of consumer goods.

But then, we have come full circle; the argument has become totally circular. The value of labour power determines the wage (point 1) but the wage in turn determines the value of labour power (point 6). If so, let us forget this diagram, and retain simply Mandel's conclusions, from which the value of the labour power has vanished: the long-term evolution of real wages depends on demand and supply of labour, inflected by the balance of power between capital and labour.

This statement (which I willingly agree with, and which the majority will also accept, I assume), has no need of the value theory. Then, the most useful thing would be to understand how the balance of power affects the determinants of wages. This would certainly lead us to the institutional determinants of wages — institutional determinants which are present in the title of Mandel's paper, but do not really appear in the paper itself. I will briefly discuss this question in the second part of my comments.

Reflections on the Change in Wage Determinants from the 1930s Onwards

Commenting on the influence of the balance of power between capital and labour on the evolution of wages, Mandel quotes the example of the 1930s. In the US, in France, in Belgium, the increase in real wages at the end of the crisis — in spite of a high level of unemployment — seemed to be connected with the upsurge of workers' organisations which had been so long inactive.

I would like to develop this example, and suggest that what happened in the 1930s was something more than a momentary rise in wages gained by a more militant working class. In my opinion there was a modification *in the very mechanisms of wage formation*. By developing this example, I will argue in favour of the following thesis:

Through history, we can observe successive periods corresponding to distinct modes of wage formation. These distinct modes are related to the changes in the balance of power. How? The evolution of the balance of power gives rise to institutions (e.g. collective bargaining) which affect wage determination. The 1930s were to mark the rupture between two great historical periods, and the origin of a new mode of wage formation, which has prevailed until the present crisis.

What kind of social changes happened in the 1930s which led to a remodelling of the wage determinant? It seems to be the new relationship between trade unions, the employers and the state. In the United States, Sweden, France and Belgium, a social compromise was established at the end of the 1930s, a compromise which was to have a determining influence on the long-term wages evolution, since it was to last practically until the present crisis.

What was the origin of this compromise, and what were the consequences? To put it simply, we can say that the compromise originated from three types of evolution:

The first one was *the very rapid development of the trade union movement* just after the First World War. In Belgium, for example, union membership increased four-fold between 1913 and 1920. This fact gave strength to the workers to claim higher wages.

The new element was not only the rise of the trade unions, the novelty also lay in the second tendency that must be underlined, namely *state intervention in the organisation of social relations*. The state intervened in worker/employer conflicts; it obliged the parties to negotiate. And social opponents accepted negotiation (in the 1920s, they were not yet called social partners . . .). They came to negotiate in representative negotiating committees *(commissions paritaires)*. These committees multiplied during the 1920s and became an essential institution in the framework of wage negotiation. As from 1926, their decisions affected about half the workers in Belgian industry.

It was through these committees that the practice of linking wages to the cost of living index spread; it was through the intervention of these negotiating committees that, later, in the 1950s, real-wage increases were linked to rises in productivity. This trend, which first appeared in the 1920s, developed in the 1930s and finally became explicit after the Second World War.

Why? Probably because of the third trend I want to mention: *the introduc-*

tion of mass production technology in the consumer industries. The logic of my argument is the same as that of Henry Ford's famous 'five dollars a day': By increasing workers' wages, Ford created — either directly or indirectly — new markets for mass-produced cars. From the 1930s onwards (and especially after the Second World War), employers' representatives realised that increased wages widened markets, and were necessary for mass production introduced by new production techniques.

The compromise which came to birth in the 1930s included advantages for both partners. Workers received higher wages; in exchange they were asked to submit to the discipline of the new production techniques. Social compromise was born around the idea of economic growth. This appeared clearly in Belgium under the Van Zeeland government. A new institution influencing wage determination appeared in 1936: the National Labour Conference. From then on, representatives of the workers and of the employers were called social *partners*.

The pact was sealed. It was to be renewed and even enforced after the war, by the *Declaration Commune sur la Productivité* (Common Declaration on Productivity) signed in 1954 by the representatives of the main groups of workers and employers. After this social agreement, finalised after decades of preparation, the wage determinants now had little in common with those prevailing in the nineteenth century. (I prefer to talk about nominal wage determinants, and then draw useful conclusions concerning real wages.)

In the nineteenth century, it was unemployment which seemed to have a preponderant influence on nominal wages. After the First World War, the variations in nominal wages began to correspond to changes in the cost of living. Indexation of wages was far from perfect, but unemployment was certainly no longer the only explicative variable of wage fluctuation.

This change in wage determination has been shown by French and US data. It also clearly appears, in an original way, through the Belgian data of the interwar period. The change in wage determinants first appeared in those industries where the proportion of unionised workers was high. During this period, if you divide industry into two sectors (non-sheltered and sheltered), the first one being highly unionised, you note that nominal wages followed the tendency of the cost of living in the unionised sector (Figure 7.2), but not in the non-unionised sector. In the latter, wages were still much more sensitive to the level of employment.

This change in wage determination was the first effect of the institutions created in the 1920s and 1930s. Later, after the Second World War, when negotiating committees became common, the nominal wage was the consequence not only of the cost of living, but also of increases in productivity. By the intermediary of institutions, wages were directly linked to the cost of living and productivity increases were partly reflected in real-wage

Figure 7.2 Belgium 1920–40. Nominal Wage in the Non-sheltered Sector and Cost of Living. Annual Rate of Growth (in per cent).

Source: I. Cassiers, *Croissance, crise et régulation en économie ouverte: la Belgique entre les deux guerres*, Brussels, 1989.

increases. These new wage determinants which have gradually become an integral part of the economic scene following conflicts and compromises, relegate the influence of supply and demand on the labour market. Wages were far less influenced by unemployment in the 1960s than at the end of the nineteenth century.

As a conclusion, I would say that the evolution of the balance of power and the institutions born out of it, have had three major effects:

(1) A decrease of the influence of unemployment upon wages

(2) A progressive link of nominal wages to the cost of living — partial link at first, almost perfect link from the 1950s onwards

(3) The appearance of a positive influence of labour productivity upon wages.

These new determinants of wages have no reason to be everlasting. They depend on the viability of the institutions and, seemingly, on the economic growth which supported the social agreement. What will happen tomorrow to economic growth and to social institutions is not so clear, and neither is the future trend of real wages.