

EVOLUTION OF WAGE THEORIES

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Abstract: The classical theory of wages, defined by Adam Smith, David Ricardo and Thomas Malthus, back in the 18th and 19th centuries, is the basis for understanding the economic forces that determine the level of wages. According to the theory of wages, the wage is determined by market forces for the supply of money and the demand for labor and should be sufficient to meet the needs of workers, due to the "existential wage", the concept of the natural level of wages and how the supply and demand for labor, and the impact of productivity on wages. These theories have their limitations that are also subject to analysis, as well as the concept of their applicability in a modern economy. Also, the classical theory, despite its resistance, created the basis for further production of wages in the contemporary and modern economy, while analyzing both socioeconomic factors and the function of the wage as a stimulus for productivity.

Keywords: wage theory, classical theory, neoclassical theory, wage function

1. INTRODUCTION

In today's modern economy, theories of wage determination have a significant impact on the way modern economists understand the factors that shape workers' earnings and the labor market.

The classical theory, which is one of the most influential economic schools, shows the salary as a function of supply and demand (Leveo, M. 2019). In classical wage theories, the subsistence wage is the concept that determines the minimum compensation required for workers to meet their basic living needs. The paper explores the classical theory of wages from a fundamental point of view, performs a historical overview of the key factors and limitations, as well as its current application in the modern economy. Wages are a complex, complex and contradictory economic phenomenon. From the employer's perspective, it represents production costs that he tries to minimize. On the part of the employee, wages are mainly income that he seeks to maximize.

2. HISTORICAL DEVELOPMENT OF THE CLASSICAL THEORY

The development of classical economic theory is closely related to the works of representatives of English classical political economy Adam Smith, David Ricardo Thomas Malthus and representative of French political economy J. B. Sej. Their names are closely associated with innovations in the field of wage theory. According to the ideas of political economy, the price of labor as a product or salary is determined by the subsistence costs that ensure the normal reproduction of the worker and his family (Kulikova, V.V. 1988).

Many scientists at different times have built different hypotheses in this area, but only the results of A. Smith in the field of labor economics represent the first systematic interpretation of the theory of wages, which sets the assumption that labor is a residual demander of income (Schumpeter, J. A. 2001). Adam Smith's assertions in his work "The Wealth of Nations" are that wages are determined by the value of labor and its productivity (Smith, A. 1776). Smith believes that the value of labor is determined by how much labor is required to produce a good or service, as well as by market conditions.

According to Smith, wages took place everywhere and always, both in the primitive system and under the capitalist system. With a simple commodity in production, wages are equal to the entire product of labor produced by the laborer, while in capitalism this is only part of the value created by the hired laborer. The worker's labor, according to Smith, is a product like any other. The concept as labor power (the ability to work) is unknown to Smith, but at the same time the price of labor is determined by him as the cost of the means of subsistence necessary for a worker to live and raise children. Also in his works he tries to describe the mechanism of wage fluctuations, emphasizing that its lowest level is the level of physical existence, below which it should not be.

It is to Smith's credit that he analyzed wages in close relation to the level of wealth and population of each state. With the growing prosperity of the country, wages also increased, which in turn had an impact on the birth rate and, thus, the labor supply. (Belousov V.M., & Ershova T.V. 1999).

David Ricardo examines the idea of the living wage which is a basic concept for understanding the minimum wage required for the survival of a worker and his family. He claims that market conditions, i.e. supply and demand, have a significant impact on wages. His claims are that when demand is greater than supply, wages will rise, while if the reverse happens wages will fall because there is a surplus of labor.

Ricardo emphasized that in different periods in the same country the natural price of labor can be unequal and vary significantly in different countries. Also, according to the scientist, it does not require proof that the value created by the labor of the worker is greater than the salary he receives for it. He considers the profit in the form of the balance sheet after deducting wages from the cost price of a product. (Ricardo D. 1955)

In the works of Zh.B. Already, wages are already represented as income derived from labor together with profit and rent as a factor received from capital and land. The theory of "three factors of production" is closely related to the distribution of J.B. Sey. Labor, land and capital, according to his theory, have the same importance in production, therefore the income from the sale of products should be redistributed among all participants in the production process as payment for their services.

At the same time, he tries to prove that workers and society benefit from low wages

Formed in the first quarter of the 19th century. trio Ricardo - Malthus - Sej, built their theoretical judgments about wages based on the so-called doctrine of labor funds.

In accordance with the theory of wages based on the doctrine of the labor pool, it is assumed that the wage pool, as well as the demand for labor, must oppose the supply of labor. Hence, the wage rate should be determined by dividing the total amount of money intended for payment by the number of employed workers. Therefore, an increase in wages requires either an increase in production or a decrease in the birth rate.

3. PRINCIPLES OF THE CLASSICAL THEORY OF WAGES

Classical wage theory emphasizes that wages are determined by the interaction between labor supply and demand. When the demand for workers exceeds the supply, wages will rise as employers compete to attract skilled labor (Samuelson, A.P. & Nordhaus, D.W. 1989). When supply is greater than demand, wages fall, which also explains the differences in wages between different occupations and industries in the market.

According to the subsistence wage theory, the wage should be sufficient to provide the worker with basic means of living. An increase in wages above the subsistence level will lead to an increase in population, which will increase the supply of labor and eventually cause wages to fall back to the subsistence level. This level of wages allows for the continued survival of the workforce and stability in the labor market.

According to the most famous classical theories, the salary should be proportional to the productivity of the worker. Adam Smith argued that workers should receive wages that correspond to their contribution to the creation of value, with a more efficient workforce should have higher incomes (Smith, A. 1776). Productivity is one of the most important factors in determining wages, especially in the modern context of high-tech industries and increased efficiency.

Classical wage theory does not take into account all the factors that affect real wages. For example, some aspects of political and social factors are left out. This includes government policies such as the minimum wage, trade unions and labor rights, labor protection regulations, etc. (Stiglitz, J.E.1996). Furthermore, the classical theory overlooks discrimination based on ethnicity, gender, or race that can significantly affect inequality in employer earnings.

4. CONTEMPORARY APPLICABILITY OF THE CLASSICAL THEORY OF WAGES

Classical wage theory was created during the Industrial Revolution, its basic principles are still relevant in modern economic systems today, especially in the context of the market forces of supply and demand.

In today's conditions, the labor market is very different from the one that classical economists wrote about, and the impacts of globalization, technological progress, legislation and socioeconomic factors significantly complicate the application of classical theory (Gjorgjiev, M. 2022).

Nowadays globalization has brought about changes in the economic systems and in the way the labor market works, thus the classical theory is subjected to additional influences. Today's labor mobility allows the workforce to move easily from one country to another, and this dynamic affects the supply and demand for labor in different regions. This means that wages are no longer limited to the domestic market, but are subject to global standards and global competition. An example of this is outsourcing, where companies move jobs to countries with lower wages, which in turn reduces the pressure on companies to raise wages in domestic markets (Krugman. P. & Wells ,R. 2009).

Recently, technological development and automation have brought significant changes to the labor market (Gjorgjiev. M. 2022). According to the classic coat theory, the productivity of workers is an important factor in determining their wages, but automation has changed the way productivity is calculated. Automating systems can produce more with fewer workers, which reduces the required skill level and can lead to lower wages for lower skilled workers (Autor D.H.et.al. 2003) In fact, automation creates a demand for highly skilled workers, whose wages increase, while those with lower qualifications face stagnant wages, that is, all this has led to an uneven increase in wages.

The modern economy today is much more regulated, with governments introducing minimum wages and legal norms to protect workers, which was not present in the time of classical economists (Gjorgjiev. M. 2022). The minimum wage sets the base level of compensation below which workers may not be paid. Which in turn directly affects the supply and demand of labor and limits how low wages can fall in the face of a labor surplus in a country. These policies alter the natural mechanism of the market, as described in classical theory, and impose additional factors that protect the workforce from economic fluctuations (Stiglitz, J.E. 1996).

Socioeconomic factors are also an important segment in the modern economy such as: education, gender differences and discrimination, these factors play an important role in determining wages.

Recently, migration of people from Asian countries has been an important factor in determining wages in developed European countries. The fact is that migrants are willing to work (and work) for lower wages than specialists who are nationals of the host country (Атанасовска, Ю. и др. 2022). This leads to a situation where the nationals of the host country are forced to work for lower wages or in the worst case become unemployed, because the jobs are filled by migrants who offer cheap labor.

According to the classical theory, market forces are the only wage determinants, but in reality socioeconomic factors create significant differences in the earnings of different groups. Contemporary economists agree that social inequality and limitations based on gender, ethnicity, and class significantly affect the labor market and create differences in worker wages that cannot be explained by supply and demand alone (Acemoglu,D. & Autor ,D. 2011).

Modern economists today recognize the limitations of classical theory and for that reason have developed hybrid theories that combine classical theory with other economic approaches, such as neoclassical theory. These theories also take into account factors such as the bargaining power of unions, the influence of government interventionism, and social factors that play a major role in wage formation (Blau F.D. & Kahn, L.M. 2007). This means that wages are not only the result of market forces, but also of the socioeconomic and political circumstances that shape the labor market.

5. NEOCLASSICAL THEORY OF WAGES

The neoclassical economic school advocates further development of the ideas of the classics of the market economy (Atanasovska, J. et al. 2024).

In neoclassical theory, wages are interpreted as income from labor. The worker is believed to be selling labor, not labor power. Wages are therefore considered the cost of labor. Workers seek those areas of employment where the wage rate is higher. In order to keep the worker in his enterprise, the entrepreneur must set the worker a wage rate no lower than what he can get in other enterprises. On this basis, the neoclassicists introduced the concept of opportunity cost of labor, which implies the maximum income that the worker could have by different uses of his labor. The payment for labor necessary to retain an employee in a given enterprise, from the point of view of the neoclassicals, is equal to the opportunity cost of the worker's labor.

Among them, the concept of the opportunity cost of labor does not provide a clear vision for the definition of the price of labor, so neoclassicists investigate the formation of wage rates by formalizing and studying labor market models.

First, a perfectly competitive labor market model is studied. It assumes that a completely homogeneous labor force is sold in the market, the number of buyers and sellers of labor is large enough so that no one of them can dominate the market, ie. affects the quantity of labor sold or bought and the wage rate. It is also assumed that all participants in the labor market have comprehensive information on all indicators necessary for their decision-making. It is believed that in this case the wage rate is set at the equilibrium level, i.e. as balancing labor demand and labor supply.

The study of the formation of the supply of labor begins with the analysis of the behavior model of an individual worker, who decides how much labor to sell depending on the level of wages, i.e. forms an individual labor supply. The worker, in determining the amount of labor time to be sold, compares the hardships of labor with the pleasures that can be obtained from the goods purchased with wages.

Work difficulties are dissatisfactions related to loss of free time, sacrifice of free time. The worker is free to have fun and enjoy himself, but instead he works and sacrifices these pleasures. (Olivia J,& William P 2021).

6. THE ROLE OF SALARY IN MODERN CONDITIONS

Work is a deliberate human activity aimed at meeting the needs of society. All relations between the employee and the employer are expressed in one thing - receipt by employees of any type of remuneration used in this enterprise (Алексеева, Г. И. 2016).

An effective reward system for labor results includes various types of compensation, incentive payments and rewards, which helps to increase productivity, all other things being equal to the costs of labor and the costs of the economic entity for their compensation in the form of wages and various types of remuneration are the most important element of production and distribution costs, which have a stable upward trend. Wages, together with payments for incentives and compensations, are the main sources of income for employed citizens, as well as the key indicators of labor and consumption costs, the costs of covering them at the industrial and national level.

Remuneration is an integral part of the salary fund. The wage fund contains: amounts of wages accumulated by organizations in monetary and non-monetary forms, calculation accounts for hours worked and not worked, compensation payments related to working conditions and working hours, various types of bonuses and allowances, one-time incentive payments, as well as payment for food and lodging, which is systematic (Анциферова, И. В. 2014).

Historically, two forms of remuneration are distinguished: cash and in kind.

Currently, the most common form of remuneration is cash. Establishing this form of remuneration is mandatory for organizations and does not require any special conditions.

The essence of remuneration is revealed in its functions that it performs in the production process. It should be emphasized: reproduction, which consists in providing the possibility of reproduction of the labor force; stimulating (motivational) aimed at increasing interest in production development; social, promoting the implementation of the principle of social justice; accounting and production, characterizing the degree of participation of living labor in the process of forming the price of the product, its participation in the total costs of production. At the current stage of development of society, the most important functions of wages that should be maximized and strengthened are reproductive and the stimulating functions.

The reproductive function of the salary appears in its ability to compensate the labor costs incurred by the person in the performance of his work activity. Therefore, for the simple reproduction of the labor force, a sufficient level of wages is required, without which this function will not be fulfilled (Старовойтова, Е.В. 2016.).

Historically, two forms of remuneration are distinguished: cash The stimulating function of wages acts as a tool for the development of production in modern conditions of a crisis economy. In the near future, given the growth of incomes of individual entrepreneurs, owners of securities and investments, salaries will have a significantly dominant weight in the income structure of the population. Skillful use of this function turns wages into one of the most important tools for increasing economic growth and production efficiency. Because it is wages that are proportionally related to directly expended labor. Consequently, its stimulating effect on the development of social production is currently decisive. It should be noted that today the incentive function of remuneration is manifested at a very low level, because more than 50% of workers in the production sector of the economy, social sphere and public service do not fully realize their intellectual and physical potential during their work activities .

The main subjects of labor relations are: the employer on the one hand and the employee on the other hand. In this case, wages not only act as payment for hired labor, but are also an integral part of the labor loan agreement. An employee can conclude a contract not only with an organization, but also with an individual entrepreneur. Regardless of who acts as an employer - an organization (legal entity), a natural person or the state, the relations that arise between them are labor relations and represent the provision by a citizen of his labor force in exchange for a certain amount of money, as well as other material and social benefits. Its value is determined by the price of labor, which is indirectly related to the results of labor. But later in the production process, the level of wages is also affected by the results of labor.

The improvement of wages presupposes the need to more accurately take into account the quantitative and qualitative labor costs and to improve the utilization of wages in order to increase and stimulate labor productivity and to increase production efficiency in general. Establishing a direct relationship between wages and production results is the most important prerequisite for the effectiveness of wages. Workers' wages, not limited by maximum amounts, become a powerful tool for stimulating the work of workers and increasing the efficiency of production.

The functions of wage control in modern conditions have become fundamental. Control is a system of monitoring and checking the functioning of the managed object in order to assess the validity and effectiveness of the management decisions made, identifying the degree of their implementation, the presence of deviations and

unfavorable situations, which are recommended to inform the competent authorities who can take measures to improve the current state of affairs (Бурмистрова, Л.М. 2016).

For most people, wages are the main source of income. At the same time, all organizations are obliged to pay personal income tax (personal income tax) and insurance premiums. Therefore, organizations are interested not only in reducing labor costs, but also in reducing the amount of mandatory contributions to social funds. This will increase the net profit of the enterprise. This circumstance calls for a review of staff payments in terms of salaries.

One of the main directions in the regulation of labor relations and salary calculations is outsourcing, which implies attracting workers from third parties to perform work functions (Алексеева, Г. И. 2016).

The most risky areas include situations that are not controlled by the tax authorities or by the workers themselves: illegal payment of wages, payment of wages to unemployed persons; is not a legal basis for collecting wages. Problems with non-registration of labor relations are of great importance in the reward system. Thus, in order to assess the effectiveness of the reward system and material incentives, it is necessary to analyze the range of payments, the volume of the types of payments and the structure of employees' incomes, as well as to evaluate the motivating effect of each payment, as well as to take into account the factors that directly or indirectly affect the effectiveness of the system for reward.

7. CONCLUSION

Classical wage theory provides a basis for understanding the economic forces that determine wage levels, particularly through the concept of supply and demand and the subsistence wage. Although this theory has certain limitations, it remains an important framework for the analysis of wages and the value of labor in economic science.

A contemporary approach to classical and neoclassical wage theory highlights wages as a key factor in employee motivation, productivity and retention. While classical theory focuses on market forces, neoclassical theory also takes into account productivity, skills, and technology, adjusting the wage function to today's economic conditions. In this context, the salary has an important role not only as a cost for the employer, but also as a strategic instrument for attracting quality staff and ensuring the competitiveness of the company.

In the modern economy, wages have multiple roles that affect the labor market and overall economic stability.

From all this we can conclude that in the modern approach to the theory of wages it has a key role not only as compensation for labor, but also as a key tool. It serves to attract and retain a quality workforce, increase productivity, reduce economic inequality, balance the labor market, and economic growth.

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